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Politics this week

Dec 30th 2003
From The Economist print edition

Iran's earthquake

Reuters

An earthquake hit the **Iranian** town of Bam, 1,000km (621 miles) south-east of Tehran, the capital, on December 26th, killing at least 28,000 of its 80,000 people. The quality of the government's response may affect the outcome of a power struggle between reformers and reactionaries.

See article: The aftermath of Iran's earthquake

Libya's ruler, Muammar Qaddafi, admitted that his government had been secretly trying to develop weapons of mass destruction, promised to stop doing so, and said that international inspectors could come and look. Mohamed ElBaradei, the head of the UN's nuclear watchdog, toured four secret sites, and said that Libya had still been years away from a nuclear bomb.

See article: Libya's nuclear programme

On December 27th, in one of the deadliest attacks of the month in **Iraq**, suicide bombers and other insurgents killed 19 people—five Bulgarian and two Thai soldiers and 12 Iraqis—in the Shia Muslims' holy city of Karbala.

Israel's prime minister, Ariel Sharon, ordered the dismantling of four Jewish settlement outposts in the Palestinian territories. The Palestinian Authority dismissed it as a publicity stunt.

Criminal past

Extreme nationalists staged a comeback in the **Serbian elections**. The Radical Party, nominally led by Vojislav Seselj, an indicted war-criminal suspect, jailed in The Hague, won 27% of the vote; the party of the former dictator, Slobodan Milosevic (also indicted and in jail), did well too. More moderate parties will now struggle to form a government.

See article: Serbia's general election

Opponents to Vladimir Putin in the **Russian** presidential election in March look like being thin on the ground. Two veterans from previous elections, Vladimir Zhirinovsky of the misnamed Liberal Democrats, and Gennady Zyuganov of the Communist Party, have announced that they will not run. Mr Putin is expected to win re-election by a landslide.

The **European Union** presidency passed to Ireland. The Irish prime minister, Bertie Ahern, will now try to pick up the pieces left after the collapse of negotiations on a new EU constitution at December's Brussels summit.

See article: Ireland's contentious plans to decentralise

Letter bombs were sent to various senior European officials, including Romano Prodi of the European Commission and Jean-Claude Trichet at the European Central Bank. Nobody was injured.

Buying office

Three former aides of **South Korea's** president, Roh Moo-hyun, were charged with collecting illegal funds for his election in 2002, a further blow to the scandal-wracked administration.

A gas explosion killed more than 230 people in southern **China**.

An assassination attempt against President Pervez Musharraf of **Pakistan**, the fourth since 2002 and the second in less than two weeks, narrowly failed. The president later reached a deal with the country's parliament in a long-running dispute over their relative powers under the constitution, after agreeing to step down as the head of Pakistan's army at the end of this year.

Beef ban wallop

America confirmed its first case of "**mad-cow disease**" at a farm in Washington state. In response, some two-dozen nations slapped a ban on American beef imports.

See article: BSE in America

America upgraded its national security alert from "elevated" to "high" amid fears that **al-Qaeda** was planning further terrorist attacks. Some commercial flights between Los Angeles and Paris were cancelled and patrols were stepped up around oil facilities in Alaska.

See article: Homeland security in America and Europe

Heavy rains caused a mudslide that swept through a campsite near San Bernardino, **California**, killing 14 people, mainly children. Meanwhile, an earthquake hit the state's central coast, killing two people.

A winning performance

Oscar Berger, a conservative businessman, was elected as **Guatemala's** new president. He won 54% of the votes cast in a run-off ballot against Álvaro Colom, from a centre-left coalition.

See article: Guatemala's new president

In an extraordinary session, **Mexico's** Congress approved the government's budget, but rejected its plans to levy VAT on exempt items, including food and medicines.

Colombia's Congress approved tax increases worth some $700m a year. This was less than the amount requested by President Álvaro Uribe, but may be enough to help the government meet its fiscal targets. Earlier, left-wing guerrillas released five foreign tourists they had held for three months.

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Business this week

Dec 30th 2003
From The Economist print edition

Turning sour

Parmalat justified its nomination as “Europe's Enron”: the Italian dairy-goods firm was declared insolvent; Calisto Tanzi, its founder and former boss, was held; and its shares were suspended. A judicial inquiry began into a non-existent *euro*4 billion ($5 billion) bank account; the size of the hole in Parmalat's books is put at over *euro*10 billion.

See article: Milking lessons

Vivendi Universal and **Jean-Marie Messier**, the French media group's former chief executive, agreed to settle fraud charges brought by America's Securities and Exchange Commission. The company will pay $50m; Mr Messier agreed to forgo a controversial *euro*21m ($26m) severance package and will pay $1m. But Vivendi could still face civil action by disgruntled shareholders.

KPMG quit as auditors of **Hollinger Incorporated**, the Canadian holding company that controls Hollinger International, an embattled media group. Hollinger Inc refused to make management changes requested by the accounting firm. Its chief executive, Lord Black, stepped down as boss of Hollinger International in November and is under investigation by the SEC.

In a seasonal gesture, **Ford** handed $1.6 billion to Visteon, a car-parts firm that it used to own. The money is to help Visteon meet pension and health-care costs inherited from the car giant. But Ford raised its estimate of profits for 2003 by 10%, thanks to cost-cutting and improvements to its credit business. Its shares rose by 10%.

See article: American carmakers are serious about making cars again

Lehman Brothers was reportedly poised to revive a deal to acquire **Le Meridien Hotels and Resorts**. The American investment bank is set to exercise an option to match a rival bid of £700m ($1.2 billion) from Goldman Sachs to buy the heavily indebted British hotel group.

The **dollar's** decline deepened. The currency hit a new record low against the euro, breaking the $1.25 mark for the first time; it also fell against the yen and sterling.

See article: The dollar's predictable slide

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Here we go again

America's angry election

Dec 30th 2003
From The Economist print edition

Prepare yourself for an unusually divisive year

AND so the greatest show in modern politics rolls back into town. Four years ago, the American presidential election outdid itself in terms of spectacle. First, John McCain ran the front-runner, George Bush, surprisingly close in the race for the Republican nomination. Then, in the real election, the “50:50 nation” produced a dead heat. Finally came the drama of the Florida recount, twisting all the way up to the Supreme Court before Mr Bush was eventually declared the victor. Now 2004 promises to bring an even more combative show.

A surprising number of people will dismiss the contest as mere hoopla. Even in the United States, only around half the electorate will bother to vote. Yet the contest is crucial—and not just because it will choose the most important man in the world. The election will be a verdict on the determined yet controversial way in which Mr Bush has steered his country. It also comes at a time when America is more bitterly divided than it has been for a generation.

The stakes are high for both sides. For Mr Bush, success in November would dispel doubts over the “stolen” election of 2000 and counter the charge that he has exceeded his mandate in the war on terror. For the Democrats, the presidential campaign represents something of a last chance. They look unlikely to regain power in Congress. In the Senate, they are defending more vulnerable seats than the Republicans are, and in the House of Representatives another bout of redistricting to protect incumbents should reinforce the Republicans' position. Hence the Democrats' fear that a Bush victory would allow the Republicans to “conservatise” the country's institutions, particularly the judiciary, for years to come.

If that seems paranoid, it reflects the atmosphere in which the contest will be fought. Much has been made in Europe of the way Mr Bush's policies have set America apart from the rest of the world; less noticed is the way that those policies have polarised his own country.The president's approval ratings show a huge gap between Republicans and Democrats. The divide is geographical, too, with the Bush-loathers clustered along the coasts, particularly in California and New York, and the Bush-lovers buried in the South and the west.

How much is this Mr Bush's fault? American politics has been getting more ideological and partisan for the past quarter-century, as the conservative South has transferred its allegiance from the Democrats to the Republicans. Yet the current president, a conservative southerner himself, has tended to exaggerate the split. Right from the beginning, fume his foes, he ignored the narrowness of his mandate and set off in an unambiguously rightward direction, pushing through an even bigger tax cut than he had promised. The tragedy of September 11th produced a rally around the presidency, but many liberal Americans, like many Europeans, have since been taken aback by Mr Bush's hard-line approach to the war on terror.

The division between these two Americas will have an enormous impact on both phases of next year's

spectacle. In the primaries, Mr Bush's popularity with the party faithful has already paid off: unlike his father in 1992, who was mauled by a conservative rebellion led by Pat Buchanan, this Bush faces no challenge for his party's nomination. So far, no sitting president who has avoided a primary challenge has lost.

Meanwhile, the Democratic contest has been dominated by the rank-and-file's loathing for Mr Bush and its contempt for the way the Democratic leadership in Washington has kowtowed to the president. Senators John Kerry, Joe Lieberman and John Edwards and Congressman Dick Gephardt have all suffered for supporting the Iraq war; instead, activists have flocked to the standard of Howard Dean, a former governor of tiny Vermont, who opposed the war and promises to represent “the Democratic wing of the Democratic Party”.

Mr Dean's partisanship has already forced all his rivals, except Mr Lieberman, to step up their own attacks on Mr Bush's foreign policy. Yet their change of tactics has not halted his advance. If the fiery Mr Dean can clobber Mr Gephardt in Iowa and Mr Kerry in New Hampshire, he may have the nomination in his grasp by early February. In that event, a polarised country would have to choose between a conservative Texan and a liberal north-easterner—on the face of it, the oddest couple since George McGovern took on Richard Nixon in 1972.

The receding centre

Like most caricatures, those of Mr Dean and Mr Bush are both a little unfair. The supposedly “conservative” president has expanded the federal government and its budget deficit at a speed few French socialists could match. As for the “liberal” Mr Dean, he was actually a rather conservative governor of Vermont, even supporting gun rights. He has tried to head off comparisons with the hapless Mr McGovern by stressing his willingness, normally, to send troops to fight overseas.

As the focus turns from the primaries to the general election, both men will valiantly strive to prove they are really centrists. As they court the “soccer mom”, “Joe Sixpack” and all those other mythical floating voters who normally help decide American elections, Mr Bush will play down his views on abortion while Mr Dean will try to stay clear of gay marriage.

Yet political caricatures have a habit of sticking—and there may be less to be gained by moving to the centre next year than in the past. With America's abysmally low turnouts, the focus in political campaigns is moving from the “air war” (all those ads aimed at floating voters) to the ground war (getting out your core supporters). And core supporters like red meat. Polarisation will, however, bring at least one benefit. It will force a brutal debate on how to make America (and the world) a safer place. In the last three presidential elections, foreign policy played second fiddle to the economy, health care and pensions. In this election, it should dominate.

Mr Bush will come under fierce questioning about those missing weapons of mass destruction and the failure to plan Iraq's reconstruction. Any Democrat, but particularly Mr Dean, will have to explain what he would do differently. The campaign may well be nasty, brutal and long. But it will also drive to the heart of issues that matter for the whole world.

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British honours

Going, going, gong

Dec 30th 2003
From The Economist print edition

What should replace an absurd feudal legacy? Nothing sensible, please

A FEW small letters can make such a big difference. Much happiness comes to a favoured few at this time of year, when the British government publishes the “New Year Honours List” awarding everything from peerages, which bring real if modest power as a member of the upper house of Parliament, to hundreds of lesser gongs, richly titled and bafflingly gradated: who knows (or cares very much about) the difference between the Most Honourable Order of the Bath and the Most Excellent Order of the British Empire?

The coming year's honours have been particularly controversial because of leaks to newspapers revealing both the rum way the worthy are distinguished from the unworthy, and that some 300 public figures in past years have declined to be honoured at all. There have been predictable calls to ditch the fusty feudal flimflam for a streamlined, modern system.

That would be sensible, but also duller. Given the innate absurdity of most decorations, any alternative system should at least be more entertaining than the current one.

Why not use new technology to make the whole thing more democratic? Over the past year, British television channels have successfully used interactive television as a way of establishing the nation's favourite books, buildings, musicals and historical figures. Perhaps deserving dignitaries could be locked up together for weeks on end, battling to do the washing-up to prove their public-spiritedness.

A more precise way of gauging public opinion might be better, though. Celebdaq, for example, is a market run by the BBC for those interested in celebrities: the names are freely traded and their stock rises or falls according to the press coverage they gain each week. That could stretch to gongs as well as gigs, and could resolve the government's problem of how to deal with reforming the House of Lords: replace the hereditary principle with the celebrity principle.

Sold to the fat cat in the corner

But the best solution is the simplest: to sell honours for cash. This already happens under the counter. Big donors to political parties get peerages not for “services to industry” or “services to culture” but for services to keeping the prime minister's or the opposition leader's flunkeys in a job.

At present, the system is obscured by embarrassment. It would be better to make it transparent and

give the proceeds to the taxpayer. A public auction for titles would raise the largest possible sum as well as providing an entertaining spectacle. At the top end, hereditary dukedoms could go for many millions; at the bottom, a few obscure imperial letters for a few thousand. This would solve many problems. In an age when finding the perfect Christmas gift is so difficult, what better love token for the woman in your life than a damehood?

This system, though ideal, might be temporary. Given that there is no external constraint on the number of honours that can be awarded, the temptation for the government would be to increase their supply and thus reduce their worth. Never mind. Devaluation would be a gentle and lucrative end.

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European corporate governance

Turning sour

Dec 30th 2003
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AP

Europe's businesses have much to learn from the unfolding disaster at Italy's Parmalat

SINCE the Enron scandal, American companies have operated in a new and more demanding climate. Reported financial results are being more carefully scrutinised by investors and regulators. New rules, most notably the Sarbanes-Oxley act, have been adopted to strengthen corporate governance and increase transparency. As America struggled to clean up the mess left by Enron and other corporate scandals, Europeans congratulated themselves for mostly avoiding such wretched excesses. Now, in Parmalat, an Italian food and milk-products company, Europe has a corporate scandal of truly Enronesque proportions. If the integrity of European business is to be restored, and public confidence in the continent's capital markets is to be sustained, Europe's response will have to be as determined and sweeping as America's.

Precisely what that response should be, though, is still unclear because the critical details of the Parmalat case themselves remain obscure. There is no doubt that the company has become a massive financial disaster (see article). Until a few months ago Parmalat was an apparently healthy firm, the product of decades of entrepreneurial endeavour which had turned a tiny ham merchant in Parma into a global giant. Its shares were freely traded and it had no trouble issuing large amounts of bonds. Banks were happy to lend and credit-rating agencies gave it a clean bill of health. But in just a few weeks, Parmalat has gone from being one of Europe's brightest success stories to its biggest corporate fraud. Billions of euros are missing. The duration, extent and purpose of the huge swindle at Parmalat remain to be determined.

It is possible, however, to draw some tentative lessons from the affair. The initial response in Italy has been encouraging. Faced with a crisis, the government rushed through long-overdue laws to allow a streamlined form of bankruptcy protection similar to America's Chapter 11. That will allow Parmalat's new managers some breathing space while they try to salvage something from the wreckage. Helpfully, it also brings Italy more into line with other parts of Europe.

Yet that merely throws into relief broader Italian and European problems raised by the scandal. It has been tempting for international investors to think of Europe as a single investment space. The reality is that harmonisation of Europe's industrial and financial markets still has a long way to go. Local practices matter, never more so than when things go wrong.

Consider, for example, the well-known fact that Italy has a feeble stockmarket regulator. In Silvio

Berlusconi it also has a prime minister who himself runs a complex and shadowy business empire, and who recently introduced laws to make false accounting a civil rather than a criminal offence. The danger to honest Italian businesses could not be clearer: their cost of capital will rise if investors begin to discriminate against a country that had been trying to shake off a reputation for dark dealings. In fact, this is precisely what international investors should now do. The sheer scale of the Parmalat scandal raises serious questions about Italian business practices which only a thorough, and very un-Italian, clean-up can now dispel.

Finally, in the light of Parmalat and Enron, investors everywhere should also apply a discount to any companies which engage in complex and opaque financial engineering. Only a few observers of Parmalat appear to have asked why, if all was well, a perfectly straightforward food firm needed complex offshore structures or a cash pile supposedly worth billions. But the warning signs were there. Multiple transactions were poorly explained, or simply not declared. In future, fund managers and banks owe it to their own customers to place much tougher burdens of proof on firms with a taste for elaborate, unfathomable financial deals which seem to have little to do with their mainstream business.

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Libya's weapons of mass destruction

Muammar Qaddafi comes in from the cold

Dec 30th 2003
From The Economist print edition

AFP

What this should tell you about the Iraq war, and about Israel's nukes

FANCY Muammar Qaddafi of all people coming up with such a handsome present. On December 19th America and Britain disclosed that nine months of secret talks with Libya had persuaded Mr Qaddafi to give up weapons of mass destruction (WMD) and open his secret facilities for inspection. This is splendid enough news in itself. Since it was probably Libya's dictator who ordered the bombing of a Pan Am airliner over Lockerbie in 1988, it is better for such a man not to have chemical or atomic bombs. But the news has also given George Bush and Tony Blair an extra dividend from their Iraq war. They can now argue that the example they made of Saddam Hussein has brought a rogue state in from the cold.

True? Up to a point. Only Mr Qaddafi knows for sure what transpired inside that erratic head of his. But it is hard to believe that Iraq had no impact at all. At the least, seeing Saddam in chains must have made him more aware of the risks he ran by having a secret WMD programme. On the other hand, those who cannot believe that any good came from the Iraq war can tell themselves that sanctions did the trick in Libya, and might eventually have done the trick in Iraq. Hadn't Mr Qaddafi's craving for respectability been apparent well before Mr Bush decided to remove Saddam? And even if it was indeed Iraq that changed Mr Qaddafi's mind, it is not clear that the war has changed the minds of more formidable regimes such as those in Iran and North Korea. Though the North Koreans are talking to America and others about their nuclear weapons, they say that America's trampling of Iraq has made their own "deterrent" more necessary. Iran has admitted to withholding some information from the International Atomic Energy Agency and agreed to stricter inspections. But it remains to be seen whether it will at some point break out of the Nuclear Non-Proliferation Treaty (NPT) and build nukes.

All this argues against reading too much into Libya. Mr Bush promised two years ago that he would not let the world's most dangerous regimes acquire the world's most dangerous weapons. Libya shows that this may scare some regimes into submission, provided they do not expect to be clobbered anyway. There, probably, the lesson ends.

But has the Libyan surprise provided an opportunity as well as a lesson? Perhaps. The Arab world's response to the news from Libya has been to demand the same from Israel. Unlike Libya, Israel already has a large, though undeclared, nuclear arsenal. If Mr Bush were consistent, Arab governments say, he should make Israel give that arsenal up.

Actually, consistency demands no such thing. Israel is not one of the world's most dangerous regimes, least of all in American eyes. It has not signed the NPT, so its nuclear weapons are not illegal. A small country in a sea of enemies has at least as strong a case as, say, Britain and France, for a nuclear deterrent. When Israel acquired its nukes, in the 1960s, its neighbours claimed to be bent on its

destruction. Iran says it still is. This hardly amounts to a persuasive case for Israel to give up its deterrent, or for Mr Bush to press it to.

Still, Israel should think again. Its nukes were acquired for the day the Arabs grew stronger than it in conventional arms. With the end of the Soviet Union and Saddam vanquished, that threat has vanished. Terrorism poses no threat to which nuclear weapons are an answer. The point of Israel's nukes is now to deter the WMD of nations such as Syria and Iran. But these weapons are being acquired in large part to counter Israel's. Here at least is a theoretical chance for Israel to bargain its nukes away if its neighbours give up their chemical and biological weapons, and forswear nuclear ones.

Such a bargain would be enormously complex. The agreement would have to be based on verification, not just trust. It would have to take account of the danger that Pakistan's bomb might one day belong to Islamic extremists. But what if it could be done? Israel itself would benefit from a genuinely WMD-free Middle East. And the negotiations to rid the region of such weapons might themselves aid the quest for peace.

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Letters

Dec 30th 2003
From Economist.com

The Economist, 25 St James's Street, London SW1A 1HG
FAX: 020 7839 2968 E-MAIL: letters@economist.com

Fat of the land

SIR – The problem with obesity is that, while it is a medical issue, being fat is treated as an issue of social justice ("The shape of things to come", December 13th). Fat people are encouraged to think of themselves as discriminated against if others vilify them for their weight. This is wrong-headed. The experience with smoking shows that changing societal norms to vilify a formerly accepted practice for the sake of public health can work. A similar approach should be applied to obesity.

Little state intervention is required. The fashion industry is ideally placed to promote the vilification of obesity. All that is required is the removal of legal restrictions in discrimination legislation, which could hamper the performance of this vital service.

Nick Wills-Johnson
Perth, Australia

SIR – You ignore the negative externalities that the obese impose on society. In addition to higher health-care costs that we thin must bear, the visual grossness of the morbidly obese reduces the pleasure of being with other people, particularly in restaurants. And since the fat take up more than their fair share of space, they impose costs on the rest of us on aeroplanes and elsewhere.

My doctor had to buy new electronic scales with a maximum of 450lb as his beam scale only went to 350lb. Patients over 450lb are sent to a farm with scales that are used for weighing pigs to determine if they are ready for market.

Steven Graham
Valparaiso, Indiana

Africa's land

SIR – Were the question of justice ever in the minds of the British press such as *The Economist*, you would consider the issue of why land in Zimbabwe was repossessed ("Bye-bye Bob", December 13th). It belongs and always has belonged to Zimbabweans. As for the question of fraudulent elections and other human rights, ask Al Gore who won the elections in America.

The Commonwealth has practices and age-old traditions on consensus-building but you and Tony Blair choose to ignore this process as it suits your version of life—racist domination at all times. Unless whites stop seeing things from a racist perspective there is little hope for justice and equality. President Robert Mugabe recognises that.

Mukosha Chitah
Lusaka, Zambia

SIR – Mr Mugabe and his thuggish government are tiddlers in world terms but his odious regime stains the reputations of his neighbours. The statements of support for him from Thabo Mbeki are disturbing. There are even signs that Mr Mbeki agrees with Mr Mugabe's brutal land redistribution, suppression of dissent and manipulation of the constitution.

It is depressing to predict the continuation of Africa's slow demise. Unfortunately the continent's leaders and political elites continue to be tempted by power and wealth to the exclusion of their citizenry. Mr Mbeki is veering in this direction, distorting his legacy from Nelson Mandela.

Lawrence Greenman
Johannesburg

Chile and beyond

SIR – I would like to point out some imprecisions in your article on Chile and Bolivia ("The inalienable right to a beach", December 6th). As you state, the boundaries between Chile and Bolivia were established by a treaty in 1904 and ratified by both parliaments. Bolivia also lost territory to Brazil, Peru, Paraguay and Argentina.

The allegation that Bolivia's lack of access to the sea costs it more than 1% of GDP a year is difficult to defend. Bolivia has wide tariff-free access to Chilean ports in Arica and Antofagasta. Bolivia's only international asphalt road is the La Paz-Arica highway. It has much less access to the north, south and west. It has an open connection to the Pacific Ocean through Chilean territory by road and rail (the latter owned by a Bolivian company). High-level discussions are taking place in Bolivia about a pipeline through Chile to export gas to California. It seems that Bolivian public opinion will not accept the project passing through Chile without sovereignty over the territory. Nobody has mentioned that for 40 years a Bolivian pipeline has crossed Chilean territory, used free of tariff by Bolivia.

It is very dangerous to promote the alteration of boundary treaties, especially when they are legitimate and provide stability for the region. This does not apply only to Latin America. Look at the geography of Europe and you will realise that it is an almost impossible affair. The mutual benefits you describe could be achieved successfully without talks about the boundaries between Chile and Bolivia.

Mariano Fernández
Chilean ambassador
London

A rum cove

SIR – Critics are indeed mistaken to fault the portion of Mr Rumsfeld's epistemological digression that you quote ("Rumspeak", December 6th). However, those troublesome "unknown unknowns" can include items yet to be conceived at all, as well as those items actually unknown, but whose unknown status is unknown to those who insist they know such things. Although Mr Rumsfeld dwelt on the former category as justification for aggressive policies, he might have done better to be wary of the latter. To quote Josh Billings: "It is better to kno (sic) less than to kno so much that ain't so."

George Dougherty
Pittsburgh

SIR – You describe Bill Clinton's infamous remark on the meaning of the word "is" as "existential". Are you suggesting that the former president's reflection expresses that same mental proclivity suffered by men whom the French mistake for philosophers?

Nonsense. It bears all the marks of the analytical tradition in philosophical thinking of the English-speaking world. Bertrand Russell once wrote: "The 'is' of 'Socrates is human' expresses the relation of subject and predicate. The 'is' of 'Socrates is a man' expresses identity. It is a disgrace to the human race that it has chosen to employ the same word 'is' for these two entirely different ideas." Rummy may be a Kantian, but Mr Clinton's philosophical lineage rests squarely on this side of the Channel.

Robert Sams
London

SIR – The Concise Oxford Dictionary states: "rum, adj., Brit Colloq. 1, odd, strange, queer. 2, difficult, dangerous." Most appropriate for the pronouncements of America's secretary of defence.

Roy Palmer
Westmount, Canada

Off centre

SIR – You rate Howard Dean as a dangerous influence on a party that has already lost control of the House, Senate, Supreme Court and most state legislatures under the influence of Bill Clinton, whom you now say was a pretty good president (“Howard and Al”, December 13th). This is nonsense. The Democratic Party is moving to the left because Mr Clinton's policy to “hug the centre” does not work. The only evidence that you cite that it did work is Mr Clinton's second term. This ended in impeachment and national embarrassment. Otherwise, it has been a catastrophe for the party.

Carl Johnston
Washington, DC

Gassing

SIR – You describe Saddam's gassing of Kurdish villagers in 1988 as “the first time a modern leader had used chemical weapons against his own people (”The Tyrant in Chains”, December 16th). According to whom? I think that you would do well to remember that millions of those gassed by Hitler were also “his own people”–the fact that he did not consider them citizens should make no difference.

Simon Holloway
Tel Aviv

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Ten years of NAFTA

Free trade on trial

Dec 30th 2003 | MEXICO CITY AND WASHINGTON, DC
From The Economist print edition

AP

The North American Free-Trade Agreement is ten years old this week. It has proved a success, though not in the way its advocates promised

Get article background

FROM the start, the North American Free-Trade Agreement was bitterly controversial in all three of the countries taking part—the United States, Canada and Mexico. Its terms, which went into effect on January 1st 1994, were argued over line by line: despite its name, the agreement fell far short of scrapping all trade restrictions, and the fine print of the various exemptions and exclusions gave rise to heated argument. More than this, the agreement was attacked as bad in principle. Everybody recognised that NAFTA was an extraordinarily bold attempt to accelerate economic integration—or, as critics put it, an experiment in reckless globalisation. As such, they said, it would destroy jobs, make the poor worse off and start an environmental race to the bottom.

Equally, advocates of the agreement made some bold claims about the good it would bring. Far from destroying jobs, it would create lots of new and better ones; incomes would rise and the poor would benefit proportionately; growth would accelerate and, to the extent that this posed environmental challenges, extra resources would be available to meet them.

Unsurprisingly, a mere ten years' experience has settled few of these quarrels. Today, most trade economists read the evidence as saying that NAFTA has worked: intra-area trade and foreign investment have expanded greatly. Trade sceptics and anti-globalists look at the same history and feel no less vindicated. Look at Mexico's growth since 1994, they say—dismal for much of the period. Look at the contraction of manufacturing employment in the United States. As for the environment, go to the places south of the border where the *maquiladoras* cluster, and take a deep breath.

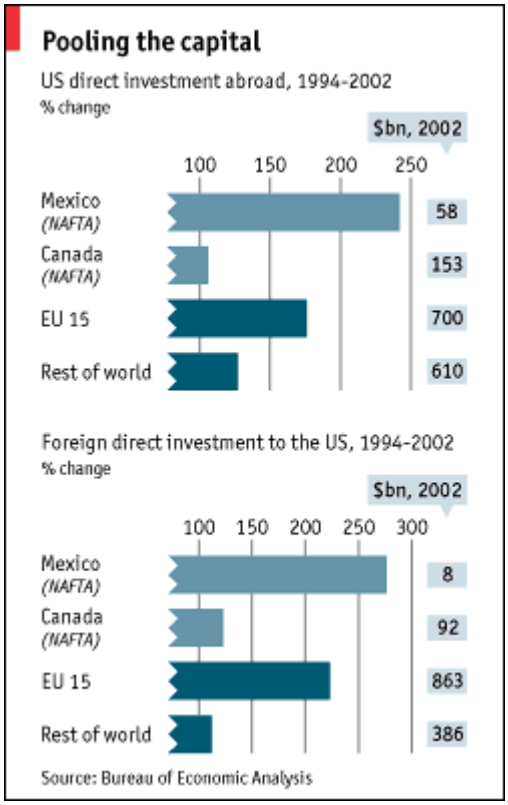
Politically, the sceptics, ten years on, can fairly claim victory. NAFTA is unpopular in all three countries. In Mexico, which stood to gain most from freer trade (since its barriers were so much higher at the outset) and which has indeed benefited greatly according to most economic appraisals, the agreement is widely regarded as having been useless or worse. In a poll conducted at the end of 2002 by Ipsos-Reid for the Woodrow Wilson Centre in Washington, only 29% of Mexicans interviewed said that NAFTA has benefited Mexico; 33% thought that it had hurt the country and 33% said that it had made no difference. In all three countries, the perceived results of NAFTA seem to have eroded support for further trade liberalisation.

NAFTA's champions are partly to blame for this: they oversold their case. It was never plausible, for instance, to expect that NAFTA would be a net creator of jobs. Trade policy is not a driver of overall employment; it affects the pattern of jobs, rather than the total number. To the extent that NAFTA succeeds in stimulating trade and cross-border flows of investment, jobs in each member country are created in some industries and destroyed in others. This was bound to be a painful process for some, even if it succeeded in making the member countries' economies more efficient overall, and hence in raising average incomes. Here was another instance of false advertising: NAFTA was never going to be, as some enthusiasts claimed, a win-win proposition for all of North America's citizens, even if all three countries could hope to gain in the aggregate.

Yes, it worked

So far as its economic effects are concerned, the right question to ask of NAFTA is simply whether it indeed succeeded in stimulating trade and investment. The answer is clear: it did (see charts). In 1990 the United States' exports to, and imports from, Canada and Mexico accounted for about a quarter of its trade; now they account for about a third. That is a dramatic switch, especially when one notes that the United States' non-NAFTA trade has itself grown strongly over the period. There is plenty of economic evidence to suggest that expanded trade, as a rule, raises incomes and future rates of growth. So it is pretty clear that NAFTA achieved as much as one could sensibly have expected it to achieve.

Why then is the agreement so widely regarded by non-economists as a failure? The answer lies partly in the interplay of politics and economics, and accordingly is different in each of the member countries. But one theme is common to all three: a tendency to blame NAFTA in particular, and international integration in general, for every economic disappointment of the past ten years, however tenuous the connection may be.



Debate in the United States has been preoccupied by fears over loss of jobs—by the “giant sucking sound” of work moving south, in Ross Perot's phrase from the early 1990s. A variety of estimates of NAFTA's direct effect on American labour have been made—with job losses running as high, according to one disputed study, as 110,000 a year between 1994 and 2000.

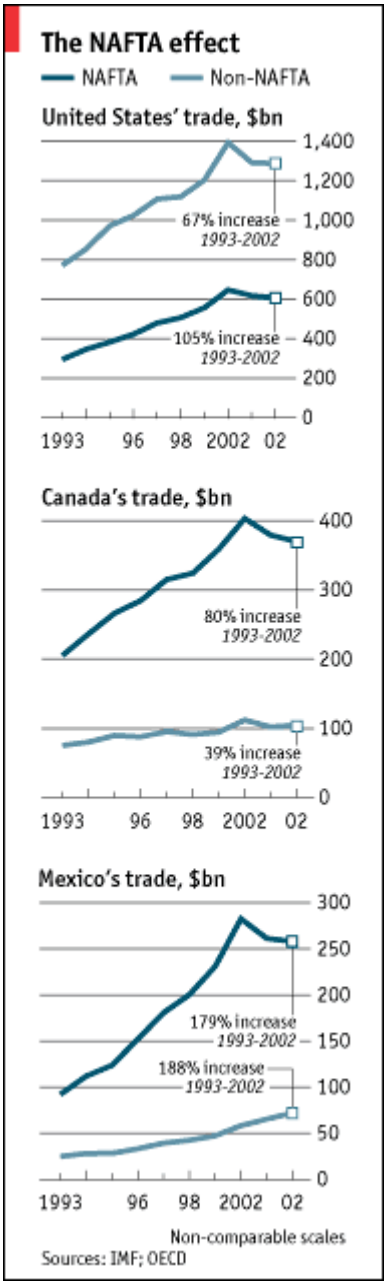
But, as already noted, direct losses do not tell the whole story: changing the pattern of employment is after all one of the reasons for promoting trade. So long as lost jobs are balanced by new ones, the overall effect on employment will be small. As Gary Hufbauer and Jeffrey Schott of the Institute for International Economics point out, between 1994 and 2000 the United States economy created more than 2m new jobs a year. Manufacturing employment has dwindled (with NAFTA as one relatively minor cause among many); jobs in other industries have more than made up the losses. And since the mid-1990s, at any rate, the great majority of new jobs created have paid above-median wages.

Against this background, even NAFTA's highest estimated direct losses can hardly be regarded as crippling. America's evident disenchantment with liberal trade has less to do with the economic depredations of the 1990s—when the economy boomed, in fact—than with a political failure to make the case for free trade against its increasingly vocal and well-organised opponents.

In Canada, initial concerns were less to do with the flight of low-skilled manufacturing jobs, because trade with Mexico seemed a less pressing issue than it was for the United States, and more to do with other sorts of international competition. As it turned out, Canadian unemployment fell markedly during the 1990s (from 11% of the labour force in 1993 to 7% in 2000). The main fear, instead, was that closer integration with the American economy would threaten Canada's European-style social-welfare

model, either by leading certain practices and policies (such as the generous minimum wage) to be regarded as directly uncompetitive, or else by pressing down on the country's base of corporate and personal taxes, thereby starving public-spending programmes of resources.

Canadian public spending was indeed squeezed somewhat during the 1990s—not because NAFTA eroded the tax base, but because public borrowing had reached an unsustainable level of 8% of GDP in the early 1990s. The problem was successfully addressed: Canada has lately run a budget surplus. Despite the fiscal retrenchment, and despite NAFTA, its social-welfare model stands intact, and in sharp contrast with that of the United States. The fact is, most Canadians are willing to pay the higher taxes that are required to finance generous public services (including universal health care). As long as this remains true, NAFTA poses no threat to the Canadian way of life.



Down south

What about Mexico? The very point of NAFTA, to listen to some of its advocates, was to destroy the Mexican way of life—and replace it with something better. The overall verdict on NAFTA rests heavily on whether the pact proved a success for the country it was bound to affect most. NAFTA was never going to have much impact on the huge economy of the United States. But as recently as the mid-1980s Mexico was still an almost completely closed economy. For Mexico, NAFTA promised to be revolutionary.

Unfortunately, soon after NAFTA came into effect, the country was overwhelmed by a largely unrelated economic shock, the Tequila crisis of 1994-95. Huge capital inflows into the country in the early 1990s were followed by rapid outflows towards the end of 1994, causing the peso to plunge. The authorities were forced to float the currency on December 20th of that year, and before long it had lost nearly half of its value against the dollar.

The financial system collapsed, with many banks going under as years of bad loans were exposed. In the end, at huge cost, the government had to bail out the banks. The repercussions of the Tequila crisis for Mexico were immense. The banks, for instance, have still not fully recovered, and the subsequent lack of credit and financial services does much to explain the anaemic performance of Mexico's domestic economy over the past decade. All this makes judging the effects of NAFTA very difficult.

Take real wages. Although Mexican workers have managed impressive gains in productivity over the past ten years to compete with America and Canada, real wages have not kept pace. This allows NAFTA's critics to argue that the typical Mexican has not benefited from the treaty as he should have done, and that big business has creamed off most of the profits.

The truth is different. The Tequila crisis led to an immediate fall of about 20% in Mexican wages (more in dollar terms), while productivity kept going up. So although real wages have been rising ever since the country began to recover in 1996, they are only just reaching their levels of before the crisis. The lasting influence of higher productivity on wages may not be clear for another decade, when the effects of the Tequila crisis have fully faded away. That said, the country recovered much more quickly from the Tequila crisis than from its previous financial crises in 1982 and 1986—and this was indeed mainly due to NAFTA. Speedily arranged help from Bill Clinton's administration spurred the strong recovery. That aid sprang from America's desire not to let its new partner go under.

The closeness of the link to America, the destination of almost 90% of Mexican exports, is of course a disadvantage when America goes into recession, as it did in 2001. Mexico lost thousands of export jobs in that downswing. On the other hand, NAFTA has insulated Mexico against the financial instability that swept through Argentina, Brazil and other parts of South America in the first years of the new century. It has given Mexico an investment-grade credit rating, and allowed it to issue—almost uniquely in Latin

America—very long-term local-currency bonds and mortgage-backed securities. Investors now think of Mexico more as a North American than a Latin American country.

Former President Carlos Salinas de Gortari embraced NAFTA mostly to attract more foreign investment and to boost the *maquiladora* manufacturers (set up in 1965 to allow tariff-free import of materials for assembly and re-export to the United States). Mexico's trade has surged, especially with the United States. In 2002 it totalled $250 billion, and the country's traditional deficit with its northern neighbour has been converted into a surplus in every year of NAFTA membership.

AP

Salinas, Bush and Mulroney: the architects

After 1994 foreign direct investment also shot up. NAFTA was designed to make investors feel more legally secure, and foreign companies duly poured in to take advantage of Mexico's closeness to the world's wealthiest market. The rise in export manufacturing also greatly reduced the country's dependence on the volatile price of oil. Moreover, NAFTA jobs in export businesses have usually been good ones, paying on average substantially more than jobs in the rest of the economy.

It hardly needs saying, however, that Mexico has no shortage of problems that NAFTA has so far failed to solve. One is the challenge of providing decently paid work for all those who need it. The chief symptom of the failure to do that, of course, is the continuing outflow of migrants.

The biggest pressure on emigration, in turn, is the crisis in the countryside. The traditional Mexican farmer had about eight hectares of his own land and some communal land for livestock. This made his family self-sufficient in everything from maize and beans to meat and milk. Even before NAFTA this traditional rural economy was disappearing, as demographic pressure caused the land to be subdivided, and many *campesinos* now eke out a living year by year, ever on the edge of disaster. “If the weather does not help us, we are completely lost,” says Dionisio Garcia, who farms a smallholding in the southern state of Tlaxcala.

Most of Mr Garcia's colleagues have simply given up. He estimates that up to 90% of the heads of families in his area now spend at least six months of the year working in Canada or the United States. “What they earn there in four months, we don't earn here in a year,” he says. They are part of an estimated 1.3m people who have left the land since 1994. The young, besides, are no longer much interested in making a living from the land; they are going off to drive taxis in the city, or to sell air-conditioners.

Mr Garcia says that he can no longer sell his surplus maize to Mexican wholesalers because he has been undercut by cheaper and better American imports. For him, NAFTA and free trade have been “totally bad”. And yet trade in Mexico's two staples, maize and beans, is still not free; the last tariffs will remain until 2008.

The flood of corn from America's mid-west is the most hated aspect of NAFTA for Mexicans. The government argues that it has to import so much because Mexico's small farmers cannot feed all Mexicans, let alone turn a profit. But critics allege that Americans are selling so cheap that they are, in effect, dumping the stuff. Besides, they receive vast subsidies from their government. NAFTA explicitly pledges to eliminate these, but it has not done so yet.

Some Mexican farmers have shown that they can make a good living under NAFTA. Export earnings from

horticulture have tripled since 1994, to over $3.5 billion; exports of fresh vegetables have risen by 80% and fresh fruit by 90%. If farmers can exploit local conditions and invest in a crop that can be exported during American or European winters, they can make money. The star performer is the Hass avocado from the state of Michoacán, in the west of Mexico, where the climate is mild and the soil fertile. Before NAFTA, the United States banned it because of infestation by insects. After a clean-up and monitoring operation, supervised under NAFTA rules, avocados from Michoacán were accepted into most states of America in 1997. Exports have increased from 6,000 tonnes to 30,000 tonnes a year.

Overall, though, Mexico continues to rely on low-cost assembly, and the advantage of preferential entry into the American market. Increasingly, other countries offer cheaper labour. With China's accession to the World Trade Organisation, Mexico has already lost much of the advantage that NAFTA gave it. Many Mexicans still think that a reviving American economy, by itself, can buoy their own. But in the next upswing, as America deepens its trade links with other states, this may prove untrue.

NAFTA alone has not been enough to modernise the country or guarantee prosperity. It was never reasonable to suppose that it would be—though that did not stop many of its advocates saying so. NAFTA has spurred trade for all its members. That is a good thing. But trade can do only so much. Sadly, successive Mexican governments have failed to deal with the problems—corruption, poor education, red tape, crumbling infrastructure, lack of credit and a puny tax base—that have prevented Mexicans and foreign investors alike from exploiting the openings which freer trade afforded. Don't blame NAFTA for that.

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European unity

The history of an idea

Dec 30th 2003
From The Economist print edition

MEPL

The idea of a united Europe stretches back thousands of years. The early enthusiasts were seldom as high-minded as their modern successors

A FEW months ago, George Bush gave a lunch at the White House for Romano Prodi, the president of the European Commission. Mr Prodi, keen to impress upon his host the grandeur of the European project, launched into a description of the enlargement of the European Union. By 2004, he pointed out, the EU would have 450m citizens and its territory would stretch from the Atlantic to the borders of Russia. “Sounds like the Roman empire, Romano,” remarked Mr Bush. Other lunchers guessed that the American president was being gently satirical. But Mr Bush, wittingly or not, had touched upon a serious point. The drive for “European unity”, which will proceed further next year when the EU's membership expands to 25 countries, has deep historical origins. Indeed, they do stretch back to the dissolution of the Roman empire.

Ever since the fall of Rome, a strain in European thought has longed for the re-creation of an over-arching political structure for Europe, and used the Roman empire as a model. In 800AD—more than three centuries after the fall of Rome—Charlemagne, the king of the Franks, had himself crowned in Rome by the pope. His new empire stretched from the Pyrenees to the Danube and from Hamburg to Sicily; and his imperial seal bore the words *Renovatio Imperii Romani*, “the Renewal of the Roman Empire”.

Charlemagne's empire fell apart fairly swiftly after his death. But the memory of Charlemagne—and of the empire that he wished to renew—continued to inspire those who sought to unify Europe by fair means or foul. Napoleon created the Legion of Honour, an order of distinction, in 1802 on the model of the Roman Legio Honoratorum and invoked Charlemagne at his imperial coronation in 1804. Hitler's loyalists gave the Roman salute and their cry “*Heil Hitler!*” was modelled on “Hail Caesar!” When the Nazis formed a new SS division for French volunteers they called it the Charlemagne division.

Of course, the Romans have inspired not only despots but also democrats, among them the architects of the Capitol in Washington, DC. And the Romans and Charlemagne also inspired the fathers of the EU, whose objectives were the exact opposite of war. The founding treaty of their creation was signed in Rome in 1957 and their successors were hoping—until this month'st failed summit—to return to the eternal city in 2004 to put their names to a new constitution. Meanwhile the expansion of the club is being managed from the Charlemagne building in Brussels.

It is easy to see common elements in the Roman and the Carolingian empires that might appeal to modern-day builders of Europe. Most obvious is sheer territorial expanse. To that may be added the creation of a common legal code, the issuance of a common currency as a symbol of imperial rule, the building of roads linking the empire (or trans-European networks, as they are unsmilingly called in Brussels). And all this is based upon a new, and supposedly lasting, peace within the empire—for the Romans, the *Pax Romana*.

Unity, fraternity, creativity

The notion that unity and peace in Europe are two sides of the same coin is an article of faith for modern pro-Europeans. A large exhibition about the history of the idea of European unity was staged in 2003 at the German History Museum in Berlin. Marie-Louise von Plessen, the exhibition's curator, argues that the "idea of unification and peace are completely linked." The political sympathies of the exhibition's organisers were barely disguised.

The Berlin exhibition emphasised the intellectual origins of the idea of European unity. Miss von Plessen's plan was to show that "Behind the shifting alliances between nations, there were always people who thought and wrote about the utopia of a united Europe, even though they were never really taken seriously until after the second world war." The thousands of people trooping through the galleries were treated to tableaux bearing quotes from philosophers and thinkers promoting the idea of European unity.

There was Pierre Dubois, a counsellor for the Duke of Burgundy, who called for a European federation in 1306; Immanuel Kant, the German philosopher who made a celebrated call for "perpetual peace"; William Penn, the founder of Pennsylvania, and an early advocate of a European parliament; and Victor Hugo, the French 19th-century novelist who proclaimed in 1849 that "A day will come when you, France, you, Russia, you, Italy, you, Germany, you, all nations of the continent, without losing your distinctive qualities and glorious individuality, will be merged within a superior unit." Lest any utterly dim-witted visitor miss the political moral, the exhibition closed with a quotation from Valéry Giscard d'Estaing, the chairman of the convention that drafted the disputed constitution for the EU, urging his listeners to "Dream of Europe. Let us imagine a continent at peace, freed of its barriers and obstacles, where history and geography are finally reconciled."

A tableau of crimes and misfortunes

It is not just museum curators and elderly politicians who hold fast to the idea that European unity is both the best way of guaranteeing peace in Europe and a natural historical progression. The idea is also cherished among serious historians in France and Germany. Hagen Schulze, a professor of history at the Free University of Berlin, ends his scholarly study of the evolution of the European nation-state, "States, Nations and Nationalism", with the thought that the "ancient states and nations" of Europe "may gradually fade away and recede into the background to make way for one united Europe." This, he avers, is likely to be a considerable improvement on previous efforts to "restore the former unity of this continent by elevating one of its major powers" to a position of hegemony—first Spain, then France, then Germany. The horrors of the fighting in Yugoslavia—he was writing in the mid-1990s—bring forth more lamentations about the warlike tendencies of nation-states. "The baleful principle of a nation united by bonds of blood is still capable of threatening democracy and plunging Europe into fresh...trials of strength."

French historians tend to be a little less eager to wish away *la patrie*. But many of them also almost instinctively link the idea of European unity with notions of peace and progress. Jacques Boussard in "The Civilisation of Charlemagne" (1968) asserts that "Charlemagne's achievement was the realisation of a united Europe. There were no wars except at the frontiers." (This is an important qualification, given that the great man fought some 53 military campaigns expanding the boundaries of his empire.) In Boussard's view it was only the "stable society created by Charlemagne" that allowed for an "extraordinary outpouring of cultural, artistic and intellectual activity."

It is sometimes observed that places that once formed part of Charlemagne's empire—France, Germany, Italy, the Netherlands—have been much more at ease with the modern-day drive for European unity than areas that fell outside it, notably Britain and Scandinavia. Perhaps as a consequence, British historians are less likely than their French or German counterparts to assume that European unity is necessarily synonymous with peace and cultural progress. In the “Oxford Illustrated History of Medieval Europe”, for example, George Holmes argues that one of the lessons of the period is the “extraordinary vigour and creativity which derive from the fragmentation of power and wealth”, and that “the places where political fragmentation was most complete, such as Tuscany, the Low Countries and the Rhineland, were perhaps the most creative.”

Arguments about the connections between creativity and culture on the one hand and political unity and fragmentation on the other are reassuringly abstract—particularly when safely placed in the Middle Ages. Historical debate becomes a lot rougher when it moves into the modern era. In 1997 John Laughland published “The Tainted Source”, whose subtitle—“The undemocratic origins of the European idea”—summarises its general thesis. Mr Laughland, who helps to run a Eurosceptical lobby group called the European Foundation, argues that it is not just the familiar figures in the pro-European pantheon—Jean Monnet, Robert Schuman and the like—who preached the virtues of European unity. Similar sentiments had been expressed by Hitler and the architects of fascist Italy and Vichy France.

Hitler, for example, told the Reichstag in 1936, “It is not very intelligent to imagine that in such a cramped house like that of Europe, a community of peoples can maintain different legal systems and different concepts of law for long.” Mussolini urged in 1933 that, “Europe may once again grasp the helm of world civilisation if it can develop a modicum of political unity.” Oswald Mosley, the leading British fascist of the 1930s, was also a champion of the idea of European union.

Partly as a result of Mr Laughland's work, many British Eurosceptics are inclined to see the modern promoters of European unity not as idealistic peaceniks, but as the heirs of Hitler who have simply devised a new and subtler plan for taking over Britain. Bonkers? Perhaps. They certainly forget the speech of Winston Churchill in Zurich in 1946, in which he called for a United States of Europe. But the conquest-by-stealth view is popular in Britain. When Mr Giscard d'Estaing published his draft constitution this year, the *Sun*, Britain's bestselling newspaper, greeted it with a cartoon showing Hitler and Napoleon squabbling over a copy of the document, each claiming, “I thought of it first.”

A DNA test for Europe's real father?

Hitler does not feature very prominently either in Mr Giscard d'Estaing's works or in the recent Berlin exhibition on ideas of European unity. In the German exhibition, the Nazi contribution to the debate on European unity is dismissed thus: “Hitler seeks to subjugate the European continent to the Third Reich in the name of ‘New Europe'.” Miss von Plessen, the exhibition's organiser, says that she used Mr Laughland's book as a source for the Berlin show. But she argues that it is unfair to link Hitler to the modern movement for European unity because “Hitler based his ideas on notions of the superiority of the Germanic race and conquest, whereas modern Europe is being built on the idea of equality between peoples.”

She is not much keener on the idea that Napoleon was a “builder of Europe”. The exhibition catalogue refers to the French emperor as “seeking to use national sentiments for his own ends” and implies that it was the monarchical alliance that defeated him, and this was the true promoter of European co-operation and peace.

Some French historians, however, are much less bashful about claiming Napoleon to the cause of European Unity. Since the French still generally regard Napoleon as a “good thing”—he was a hero to Churchill, too—they are less likely to fear that the cause of European unity will suffer by association with the emperor.

On the contrary. In 2002 *Historia*, a monthly French magazine, published an article under the title “Napoleon—the real father of Europe”, with a cover illustration of the great man crossing the Alps wearing a hat decorated with the insignia of today's EU. According to the article, many of the EU's features—federal law, the common market, the dismantling of frontiers, the promotion of the idea of the rights of man—can be traced to the Napoleonic heritage. Why, even the Grand Army brought together 20 nations. And such musings are not confined to popular history magazines. Dominique de Villepin, the French foreign minister, recently published a book on Napoleon in which he argued, “History has vindicated Napoleon's vision of a ‘great European family' of the future.”

Napoleon himself had little doubt that he deserved to be counted as a great European. In his memoirs, he lamented that had he only won his war in Russia, “Europe would soon have been...but one people, and anyone who travelled anywhere would have found himself always in the common fatherland.” Moreover, “Paris would have been the capital of the world, and the French the envy of the nations.”

O, for an empire like America's

Should anyone really be disturbed by the less savoury antecedents of Europhilia? Even Mr Laughland, the Eurosceptic polemicist, notes in a fit of fairness that “drawing attention to the detail of Nazi propaganda about Europe is not to imply that modern pro-Europeans are fascists. That would be absurd.” If the modern makers of European union are constructing an empire, it is of a new and strange variety—reliant on persuasion, example and regulation, rather than force of arms.

Naturally, it has ambitions. If pressed, few of the architects of the modern Europe venture would deny that they hope that one day the EU will be a great power—a peaceable, liberal, law-based and generous great power, no doubt, but one capable of looking the United States or China in the eye. Mr Bush caught an authentic whiff of this ambition when he teased Mr Prodi about the new Roman empire. Perhaps, nursing some imperial ambitions of his own, he recognised it. Not long before their lunch, Joseph Nye, a Harvard professor, was writing of the United States, “Not since Rome has any one nation loomed so large above the others.” The Roman empire has indeed been re-created, it seems, but its capital is Washington, DC—for the time being, anyway. Maybe, after a while, the new division of the West will mirror the old division of the Roman empire, with Rome and Constantinople replaced by Washington and Brussels.

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American politics

A portrait in red and blue

Dec 30th 2003 | SAN FRANCISCO AND AURORA
From The Economist print edition

The great American political divide, as seen through the congressional districts of Nancy Pelosi and Dennis Hastert

AP

POLITICALLY, the United States is split down the middle these days. The dead-heat presidential election of 2000 followed congressional elections in 1996 and 1998 which were also, in effect, drawn by the two main parties. The Republicans and the Democrats are now preparing for next year's elections in the belief that the outcomes could be just as close.

What does this deep, central division mean? Are the voters split between yin and yang? Masculine, feminine? Mars, Venus? *The Economist* thought an answer might be found by looking at a leading member of each party and, perhaps more revealingly, at the districts that send them to the House of Representatives in Washington, the chamber the Founding Fathers designed to be closest to popular opinion.

In the House, Dennis Hastert is the Republican speaker, Nancy Pelosi the leader of the Democratic minority. Mr Hastert, a hulking former wrestling coach, is a fairly straightforward conservative: he is against abortion, gay marriage, the Kyoto protocol; for the invasion of Iraq, the death penalty. Ms Pelosi, a tiny bird-like woman, is an unabashed, card-carrying liberal.

The districts they represent provide an even bigger contrast. Remember those maps of the 2000 election that divided America into the “red” states that voted for George Bush and the “blue” states that voted for Al Gore? Ms Pelosi's district, California's eighth, is more or less coterminous with San Francisco, the bluest, most liberal city in America. Mr Hastert's district, Illinois's 14th, is deep scarlet. It begins in the suburbs 30 miles (50km) west of the Chicago Loop, and then stretches out through miles of cornfields to a point just 40 miles short of the Iowa border.

It has a good claim to being the most Republican district in the country, at least if you factor in length of loyalty. The Republican Party has a strong southern flavour at present, but states such as Texas and Georgia have turned red only in the past decade or so. Illinois has been full of Republicans since the Grand Old Party was founded in 1854. The district contains many of the GOP's greatest landmarks, from memorials to Union soldiers killed in the civil war to Ronald Reagan's birthplace.

Ms Pelosi's district used to be Republican, too: all San Francisco's mayors from 1912 to the mid-1960s were Republican. But today the city competes with next-door Berkeley for the title of America's most Democratic enclave: 56% of registered voters are Democrats and only 12% Republican. San Francisco does not elect a single Republican official. The president of the city's Board of Supervisors is a member of the Green Party, as are three of the seven members of the school board.

Up and down, sideways and across

The two places are very different. San Francisco is part of vertical America, a land of soaring skyscrapers and high-density living. Mr Hastert's district is part of horizontal America. The same goes for the people. In Illinois a broad girth is a sign of health. In San Francisco even the chefs are thin. San Francisco is a mixture of blue-bloods and gays, dotcom millionaires and ageing hippies. Mr Hastert's district is resolutely ordinary. Locals think of themselves as typical Americans, and their geographical vision is often bounded by the Great Plains that surround them.

Not surprisingly, the two districts have totally different attitudes to growth. San Francisco is a strikingly beautiful city, famous for its precipitous hills, the Golden Gate bridge and the mists that roll in to keep it, as the saying goes, air-conditioned by God. With the sea on three sides, it has grown in size over the years without losing its human scale. Though in many respects a small town, it also has the amenities of civilised life, from decent museums to fine restaurants. Mr Hastert's district is flat and boring, culturally as well as physically.

Yet Mr Hastert's district is growing while Ms Pelosi's is stagnating. New houses march like a vast army resolutely westward across the Great Plains, from Chicago to rural towns such as Yorkville, where Mr Hastert taught, and Dixon, where Ronald Reagan spent much of his boyhood. And behind the houses are all the accoutrements of suburban boom time: huge schools and giant shopping malls. The high-school where Mr Hastert once taught has doubled in size since he entered politics in 1980. The main roads are lined by row upon row of shopping malls, each filled with superstores that seem bent on testing to the limit the principle of economies of scale.

San Francisco, by contrast, is anti-growth. Whenever it has looked as though its expansion might become dramatic—as in the 1970s and the 1990s—anti-growth activists have come up with referendums to squelch it. They say the city cannot expand without sacrificing its legendary beauty: 777,000 people are enough for a bit of hilly land that occupies just 47 square miles (122 sq km) at the tip of a peninsula.

Well, maybe. Much of San Francisco is indeed stunning, but some would profit from redevelopment. A lot of the city's housing consists of nondescript houses and some districts, particularly south of Market Street, are downright tawdry. At least part of the anti-growth lobby seems more concerned with thumbing its nose at business than with preserving the past. Conservationists recently celebrated their success in stopping a developer from doing up the city's old armoury, which is becoming increasingly decrepit.

The second big difference between the two districts lies in the relative importance attached to family life. Most of the people flocking to Mr Hastert's district are doing so for one reason: to bring up their children. They want space to build big houses, as well as freedom from the drawbacks of urban life, particularly crime. In upmarket St Charles 85% of people own their own homes; even in meat-and-potatoes Elgin, home ownership runs to 70-75%.

In the first half of the 20th century, San Francisco was one of the most family-friendly cities in the country, with magnificent parks and schools and an abundant supply of family houses. One of America's most popular radio programmes between 1932 and 1959, “One Man's Family”, was a hymn to the joys of bringing up a family in the shadow of the Golden Gate bridge. But San Francisco now has one of the lowest proportions of families with children in the country (it has more dogs than children, say some). Almost 70% of the population is single. This is not just because the city is the capital of gay America. San Francisco also has lots of young singles, and of older people living alone.

Both the property market and the school system discourage families. Only 35% of San Franciscans own their own houses, compared with a national average of 70%. At the same time, rent control both freezes rental housing and institutionalises an anti-growth mentality. The public-school system is strained both by high immigration—half the city's schoolchildren speak a language other than English at home—and by poor management. Most middle-class people either send their children to private schools or move out.

There is also a class difference. Mr Hastert's district is as resolutely middle-class as it is cheerfully mid-American. A few businessmen live in multi-million-dollar houses, and send their children to private schools. But most people send their children to public schools, shop in giant shopping malls and eat in chain restaurants. The region's varied economy means that you do not need a higher degree to get ahead: people do well in farms and factories as well as in office suites. And the almost universal commitment to the public schools reinforces the sense of equality. Sue Klinkhamer, the mayor of St Charles, points out that her local school district is so big that people living on fairly modest incomes can send their children to the same schools as do millionaires.

San Francisco is both higher- and lower-class. The city is home to some of the richest people in the country, many of them, like the Hearsts, Haases and Crockers, the heirs to rather than the creators of huge fortunes. It also has a disproportionate number of single professionals with big disposable incomes. Yet it is also host to one of the country's biggest concentrations of homeless people. Over 8,000 of them, perhaps twice that number, many drug-addicted or mentally ill, live on the streets. “A mixture of Carmel and Calcutta”, is the verdict of Kevin Starr, California's state librarian, on his native city.

The contrast extends to the two districts' representatives. Mr Hastert taught history and politics, and coached wrestlers, at Yorkville high-school for 16 years (his wife, Jean, taught PE there for 36 years). He is passionate about old cars, sport and farming. Ms Pelosi, by contrast, is blue-blooded. Both her father and her brother were mayors of her native Baltimore. She was taken under the wing of another political dynasty: the Burtons of San Francisco. Her husband is a leading businessman, and the Pelosis are a fixture on the San Francisco social and cultural scene.

Tree-huggers v Bush-huggers

Not surprisingly, the political cultures of the two districts are totally at odds with one another. Mr Hastert's district is a place where even Democrats profess affection for Mr Bush. Ms Pelosi's district is a place where Mark Leno, the state assemblyman for eastern San Francisco, can find himself labelled a “conservative”, even though he favours “transgendered rights” and the legalisation of cannabis for medical use.

It is not just ideology. San Francisco is a city of political activists. Cecil Williams, a “minister of liberation” who runs Glide Memorial Church in the heart of the Tenderloin district, boasts that “We don't just do one kind of [political] demonstration here, man. We do them all.” San Francisco saw some of America's biggest public protests against the war with Iraq. Activists tend to attribute the locals' readiness to get involved in politics to their high level of education: over half the population have either graduate or post-graduate degrees. Others think it has more to do with the fact that government is the biggest local employer. Public-sector unions are stalwarts of the Democratic Party's left wing.

Alas, political activism does not necessarily make for a well-run city. San Francisco's political arrangements are dysfunctional. Power is divided between a mayor and a Board of Supervisors who are often at loggerheads. The 11 supervisors are elected by districts rather than the whole city, an arrangement that encourages parochialism. Add to this the local fondness for ballot initiatives—referendums, recalls—and you have a formula for gridlock.

Hosannas to God, not politicians

The situation in Illinois is exactly the opposite. People will turn up for the occasional rally, say, to commemorate September 11th. Plenty of them are angry about the high level of property taxes. But they do not really care. The staff who look after Mr Hastert's farm while he is away have so far refused all his invitations to make their first visit to Washington, DC. Yet local politics seems to work pretty well. The streets are clean. The schools are successful. The mayors of blue-collar Aurora and Elgin have done much to regenerate their cities.

Two other differences in values are striking. The first concerns religion. Mr Hastert's district is building new churches or expanding old ones. In the Chicago suburbs some churches have thousands of members. Out in the sticks, some small towns have seven churches and just one bar. San Francisco, by contrast, has been closing churches for years. There was a time when the Roman Catholic archbishop was one of the most powerful political figures in town. Today he is not merely a marginal figure in a largely secular city, but also just one voice amid a religious cacophony that praises everything from Buddhism to the Church of Satan.

Then there are the two districts' attitudes to social disorder. Mr Hastert's district is meticulously well kept. The mayor of St Charles says she recently received a call complaining about cobwebs on a local bridge. She had them removed that day.

San Francisco's army of homeless can give it a medieval feel. Beggars line the streets and doss in doorways. Deranged unfortunates roam free. The United Nations fountain in the Civic Centre had to be walled off recently because it was being used as a public lavatory. The homeless get a monthly stipend from the city and state governments, and free food from religious groups. A recent ballot initiative to give street people care rather than cash was struck down on a legal technicality, though the voters had approved it.

Two rather nuanced lessons can be drawn from Pelosiville and Hastertland. One involves partisanship. The gulf between Illinois's 14th district and California's eighth helps explain why competition in America's political system is becoming fiercer at the national level. Fifty years ago the differences between the country's two, relatively unideological, parties seemed small. Now they gape wide. Against this, however, the partisanship that so poisons the atmosphere in Washington, DC, does not always extend to local politics. Though the two districts could not be more different, in both of them the two parties rub along pretty well.

The bigger lesson has to do with America's political future, not just nationally but also internationally. Most foreigners are at ease in Ms Pelosi's America. They know San Francisco from films or even personal experience: tourism has been the city's biggest industry since the early 1960s. Europeans, in particular, feel at home with the city's compact structure, leftish politics and permissive atmosphere. Mr Hastert's America, on the other hand, is a mystery.

Yet most of America's growth is coming from places like Mr Hastert's district. The proportion of Americans living in suburbs has risen from just under a quarter in 1950 to more than half today. And increasingly people work in the suburbs as well as live in them: Joel Kotkin, of Pepperdine University, points out that suburbia accounts for 57% of office space in the country and 90% of new office building. Suburbanites prefer Republican to Democratic policies by a 15-point margin, according to Mark Penn, a Democratic pollster.

But just as you imagine that the Republican Party's triumph is as inevitable as the onward march of McMansions and shopping malls, the picture clouds. The Democrats have been gaining ground in Mr Hastert's district. The refugees from Chicago are not as reliably Republican as rural types. Many are unhappy with the GOP's religious wing and its intolerant views on abortion. The district has also seen a huge growth in its Latino population. It is perhaps a warning to Republicans that Mr Reagan's boyhood home town, Dixon, now has a Democratic mayor, albeit one who voted for Mr Reagan and describes Mr Bush as “a great human being”.

The dawn fades in Aurora

The Democratic Party has been doing even better in Illinois as a whole. Having voted Republican in every presidential election between 1968 and 1988, Illinois went Democratic in 1992. Al Gore won the state by 12 points in 2000. Two years later the GOP lost control of both the governorship, for the first time in 26 years, and the state Senate, for the first time in ten. Helped by the state Republican Party's corruption and incompetence, the Democrats are plainly in full contention.

But if the Democratic Party as a whole is not necessarily doomed in suburban America, the San Francisco version of the party assuredly is. Democrats can survive in the land of mega malls only if they make their peace with mainstream America—if, that is, they adjust to the priorities of people who own their own homes and go to church on Sunday.

It is possible to imagine voters in districts such as Mr Hastert's returning a Democrat. But it is impossible to imagine them sending their sympathies to the French consulate during the recent row between America and France, or tolerating an invasion of beggars. Whether America becomes more Republican is debatable; there seems little doubt that it will become more conservative, and less cosmopolitan. In the long term that may have more profound implications for America's relations with the rest of the world than any little disagreement about Iraq.

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The Mekong river

The sweet serpent of South-East Asia

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Alamy

How much longer will the Mekong remain the world's last great unspoilt river?

EVERY October, on the night of the full moon, small globes of light rise from the Mekong river along the border of Laos and Thailand. One theory holds that methane drawn from the riverbed by the gravitational pull of the moon causes the “Naga fireballs”, as locals call the phenomenon. The devout, on the other hand, consider it a sort of spiritual firework display to celebrate the end of Buddhist Lent, while sceptics say that it is all a hoax, perpetrated by Laotian monks to put the fear of god into their flock.

The event is emblematic of the Mekong in general. It may rank only eighth among the world's rivers in terms of flow, 12th in length and 21st in the size of its basin, but few can top it for sheer peculiarity. More conventional rivers, for example, content themselves with flowing in a single direction all year round. Not the Tonle Sap, a branch of the Mekong that runs through central Cambodia. For half the year, it flows south-east towards the South China Sea. But as run-off from South-East Asia's monsoon raises the water level, the river reverses course, and begins flowing north-west into the Tonle Sap lake. When the rains slacken and the river falls, the current changes course once more, carrying its diminished flow back down to the sea.

Then there are the bizarre creatures that navigate these shifting currents: catfish the size of cows, dome-headed dolphins, crocodiles with a taste for royal blood—and relatively few people. Uniquely for such a big river in the heart of tropical Asia, the biggest city along the Mekong's banks—Phnom Penh—has a mere 1.1m inhabitants. That makes the river unusual in another respect: the pressure of a burgeoning population and fast economic growth is only just beginning to make its mark on the Mekong. But the outcome could be all too familiar: a poor compromise between conservation and development.

For centuries, the Mekong has disappointed those who have dreamed of turning it into a major artery of trade and industry. At times, overland routes have rivalled maritime ones as a conduit for east-west trade in Asia, but the sea has always provided the simplest way of getting from north to south. Thus Marco Polo probably crossed the Mekong on his way home to Europe from China in the 13th century, but did not travel along it. At any rate, he considered the river so inconsequential that he did not mention it in his account of the journey.

About the same time, 1,600km (1,000 miles) to the south, the only major civilisation to be built around the Mekong, the empire of Angkor, was reaching its apogee. Its Cambodian heartland sustained a population of at least 1m through rice farming along the shores of the Tonle Sap, and fishing in its

waters. But the Mekong played a part in the empire's trade only in so far as it provided an outlet to the sea. The Chinese merchants and ambassadors who visited Angkor in its heyday came by boat from China's coast and then up the Mekong from the delta, not downriver from the Chinese province of Yunnan.

Four thousand obstacles

They did so in part because the Mekong is not navigable much beyond Phnom Penh. In the dry season, when the river is low, boats must dodge endless jagged reefs and shifting sandbars. Even when the water level crests, the many rapids of Si Phan Don, or “Four Thousand Islands”, in what is now southern Laos, form an insurmountable obstacle to shipping. Over a stretch of 30km, the Mekong divides into a muddled network of streams and channels, tumbling over cascades and shoals.

But the main reason this huge river has always been such a commercial backwater is the scanty population along its course. The biggest expanse of flat, well-watered and fertile land in the basin lies around Tonle Sap lake, but the devastating annual flood makes intensive agriculture difficult there. Depending on the strength of the rains, the surface area of the lake can swell to up to ten times its normal size during the monsoon. But the water recedes quickly when the rains stop, so the land is alternately flooded and parched.

No wonder, then, that the most powerful countries in the region took shape in more hospitable river basins: China on the Yangtze and Yellow rivers, Thailand on the Chao Phraya, Vietnam on the Red, and Burma on the Irrawaddy, leaving the lower Mekong to much-diminished Cambodian kingdoms. North of Cambodia, the Mekong flows through the periphery, not the centre, of all these countries.

European explorers, who began snooping around the Mekong in the 16th century, took hundreds of years to work that out, though. In the 1590s a party of Iberian conquistadors overthrew the Cambodian king and set themselves up as governors in the Mekong delta. A Dutchman, Gerritt van Wuysthoff, struggled upriver as far as Vientiane in 1641. But as late as the 1860s, when France conquered Vietnam and Cambodia, colonial officials knew nothing of the river's northern reaches. They still hoped that it might provide a lucrative back door to China, and in 1866 sent an expedition to explore both the Mekong's course and its commercial potential.

The leader of the expedition died en route, and the survivors brought back grim reports of impassable rapids and lawless hinterlands. But the optimists pressed on. They seized control of Laos in 1893, and tried to turn the Mekong into a thoroughfare linking all their colonies in Indochina. To get round the rapids in Si Phan Don, they built a railway across the river's two southernmost islands, Khon and Det, close to the Laos-Cambodia border. Goods could be shifted from boat to train at the southern terminus of the railway on Khon, below the rapids, and carried to a vessel above them, at the northern end of Det.

The scheme was more a triumph of engineering than of economics, however. Chinese merchants still found it cheaper to send goods to Laos overland via Thailand. After the second world war, the railway—the only one in Laos—fell into disuse. By now, villagers on Khon have prised up most of the tracks for use as fencing. Water buffalo graze on the grass that has sprouted on the old railway bridge linking Det and Khon. Not far off, a rusty French locomotive lies abandoned in a bog.

In the 1950s and 1960s, America, too, dreamed of harnessing the Mekong to enrich Indochina, and thus dent support for the region's communist insurgents. Its allies in the region, Thailand, Laos, Cambodia and South Vietnam, set up an agency called the Mekong Committee to co-ordinate joint development projects. Plans were drawn up to dam the Mekong, and engineers got as far as surveying several sites before the ever-intensifying Vietnam war put an end to such schemes.

Thanks to all these disappointments, the Mekong remained almost untouched until the 1990s. The first dam on the river, at Man Wan, in China, was not completed until 1993. The first bridge across the lower Mekong (ie, outside China) was built a year later, between Vientiane in Laos and Nong Khai in Thailand. To this day, much of the river feels deserted. Between the town of Stung Treng, in northern Cambodia, and the Laotian border, hardly a house can be seen. There is so little traffic on the road that runs parallel to the river north of the border that “you could sleep on it,” as one local remarks. Farther north still, along some stretches of the river near Luang Prabang, only odd patches of cultivated land give any hint of human settlement.

But that is changing fast. The population of Cambodia is growing by 2.6% a year, and that of Laos by 2.3%—among the highest rates in Asia. Growth is lower in the Thai and Vietnamese parts of the basin, but they have long been more densely populated. Economic growth is even faster: 5-6% in 2003 in Thailand, Laos and Cambodia, 7-8% in China and Vietnam.

Build and destroy

To accelerate this trend, the Asian Development Bank (ADB) is promoting a scheme to integrate the economies of the “greater Mekong sub-region”. Two north-south highways are under construction to link China and Thailand, one via Laos and the other via Myanmar. So are five east-west routes linking Thailand and Vietnam, three via Laos and two via Cambodia. A tie-up of electricity grids and telecoms networks is also getting under way.

The ADB may find it as difficult to make the region boom as the French and Americans did. But one element of the current development drive is bound to leave its mark on the Mekong: dam-building. According to the International Rivers Network, an anti-dam group, some 100 large dams are proposed for the Mekong basin.

China has already completed two on the Mekong itself, has started work on a third, and plans at least four more. By the time the Mekong enters Vietnam, it has already formed a delta, leaving no opportunity for dam-building—so the government is building five dams on the one big tributary that strays across its mountainous border with Cambodia instead. Thailand, too, has dammed the main tributaries that flow across its territory. The biggest dam enthusiast of all is dirt-poor Laos, which hopes to enrich itself by building enough hydropower projects to become the battery of South-East Asia.

This barrage of dams generates valuable electricity, aids irrigation and regulates flooding—but in the process does irreparable damage to what was, until recently, the Mekong's most valuable resource: its fisheries. The Mekong and its tributaries yield more fish than any other river system. The annual harvest, including fish farms, amounts to about 2m tonnes—or roughly twice the catch from the North Sea. The Mekong is home to over 1,200 different species of fish, more than any other river save the Amazon and the Congo. Over 1m people in Cambodia depend solely on fishing to make a living, while in Laos 70% of rural households supplement their income by fishing.

The abundance of fish stems from the Mekong's seasonal ebb and flow. During the monsoon, when the

plains around the river and its tributaries flood, the habitat for fish suddenly increases by as much as ten times. Moreover, much of the flood-plain is actually forest, which provides a particularly nutritious array of rotting leaves for the fish to feed on. Many species in the Mekong have evolved to take advantage of this delectable smorgasbord. They spawn at the end of the dry season, so that the coming floods can carry the fry to the flood-plain. The bigger the flood, the greater the feast on offer, and so the fatter and more numerous the fish.

More dams, however, mean smaller floods. Most hydroelectric plants aim to generate the same amount of energy year-round. That requires a consistent flow through the turbines, which in turn requires rainwater to be held in a reservoir for use in the dry season. The same drawback, of course, applies to dams designed for flood control. Dams for irrigation, meanwhile, have a doubly damaging impact on fisheries: they not only hold back water, but also encourage the conversion of forest to farmland in the flood-plain.

Irrigated rice-farming, which is two or three times more productive than the rain-fed sort, is growing rapidly throughout the basin, albeit from a low base. In Laos alone, the area under irrigation increased eightfold in the 1990s. Meanwhile, the Mekong River Commission, the latter-day successor to the Mekong Committee, calculates that flood levels have fallen by almost 11% since 1965.

Fishermen all along the Mekong are already complaining of falling catches. For now, at any rate, the problem stems more from the growing number of fishermen than from falling numbers of fish. The Mekong River Commission calculates that the fish catch actually doubled in Cambodia between the 1940s and the 1990s. But over the same period, the number of fishermen (along with the population as a whole) has more than tripled, leading to a decline of 44% in the amount each one takes home.

To make matters worse, even if the catch as a whole is stable, certain species are clearly dying out. The Siamese crocodile, which used to pluck picnicking princesses off the riverbank, according to French explorers, has already disappeared from the main river. Perhaps a few hundred remain in the forested highlands of Laos and Cambodia—but they too are threatened by hunting and habitat loss.

A similar fate awaits the Irrawaddy dolphin. According to Isabel Beasley, an academic, there are only about 70 of these dark grey, snoutless creatures left in the entire Mekong basin. These few survivors, she explains, follow the fish in the dry season to deep pools in the bed of the river near Kratie, in Cambodia. Despite their scarcity, they can easily be spied at these spots, breaking the surface in gentle arcs in pods of three or four. But fishermen also follow the fish, and often snag the dolphins unintentionally in the large-mesh nets they leave unattended for days at a time. As mammals, they need to come to the surface to breathe at intervals of roughly 20 minutes. So any that are caught in nets have usually drowned long before the fishermen return to inspect their catch.

Suffering catfish

The reasons behind the dramatic decline in other species are murkier. Take the giant catfish, the world's largest freshwater fish, which can grow up to 3 metres (10 feet) in length and weigh up to 300kg (660lb). It used to be found throughout the Mekong basin, but has completely disappeared from most areas. In Chiang Khong, traditionally a prime fishing ground, the catch declined from 69 in 1990 to two in 2000, and none since. Unlike smaller species, which reach reproductive age within a year, giant catfish take about seven years to mature, and so are seven times more vulnerable to over-fishing. They also migrate upstream to spawn, though no one knows where, exactly, they go, and therefore whether the proliferation of dams is playing a part in their demise.

In general, the Mekong is so little studied that the effects of any development project are hard to predict. China, for example, is paying for a scheme that involves blowing up reefs in Laos, Myanmar and Thailand, to provide a navigable channel for ships of up to 150 tonnes. But halfway through the blasting, the Thai government has suspended the project, for fear that the faster flow of an unimpeded current would increase erosion and thus alter the midstream boundary with Laos. Fishermen also worry that, since the reefs may be prime breeding-grounds for fish, including the giant catfish, the catch of all species will plummet if their habitat is destroyed.

That fear is not far-fetched. Something similar happened in 1994, when Thailand, with money from the World Bank, completed a hydropower dam on the Mun river, a major tributary of the Mekong. Since then, the fish catch directly upstream has declined by 60-80%, according to a study by the World Commission on Dams. The same study argued that, thanks to cost overruns and lower-than-expected generation at

peak times, it would have made more sense to build a gas-fired plant.

To avoid a similar fiasco, the World Bank is insisting on umpteen studies and safeguards for the Nam Theun II, a big dam it is financing on a tributary of the Mekong in Laos. But the authoritarian rulers of China, Myanmar and Vietnam do not always mull over big projects so carefully, and no cost-benefit analysis at all is made of the thousands of small dams, irrigation schemes and land clearances that are undertaken each year throughout the basin. Anyway, governments in upstream countries are unlikely to give much thought to the impact of projects on lowly fishermen or farmers beyond their borders.

In theory, that is the job of the Mekong River Commission. Its members, Vietnam, Cambodia, Laos and Thailand, are slowly drawing up pacts on the exploitation of the Mekong and its tributaries. In 2001 they agreed to exchange data on water flows. A pledge to notify one another about big projects came next, and then a system to check up on such declarations. Next year, if all goes according to plan, they will fix the minimum amount of water each country must discharge downstream and, in 2005, rules on water quality.

But none of these pacts will amount to much so long as China and Myanmar refuse to join the Mekong River Commission. Officials from downstream countries—somewhat hypocritically—say that China's dam-building schemes threaten the whole basin. But for upstream countries, of course, membership of the commission would bring many restrictions and few benefits.

China has, however, been keen to rid itself of the image of a budding regional bully, and has courted South-East Asian countries with trade concessions. It also needs the acquiescence of downstream countries in schemes such as the reef-blasting. In 2001 it agreed to the minimal step of sharing data on water levels with the commission, to provide an early-warning system for floods. After all, say officials at the commission, co-operation among the riparian states, like the river itself, should flow in both directions.

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Whaling

A bloody war

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Brandon Cole

Obduracy in the face of hypocrisy

MANY quarrels divide nations, but few do so with the ferocity that characterises the war between those who want to hunt whales and those who would see the practice stopped. The front line in this long-running war is the International Whaling Commission (IWC), a multilateral organisation—part industry regulator, part conservation body—from whose trenches pro- and anti-whalers hurl insults at each other year after year.

In some years it is the pro-whalers who inch forward through the mud and carcasses of their fallen comrades. In 2001 whale-eating Iceland rejoined the commission (it had left in a huff in 1992), boosting morale among manly hunter-gatherers like Norway and Japan. Other years find the anti-whalers creeping forward on their bellies, clutching green flags of conservation and environmentalism. But neither side seems capable of decisive progress. The past twelve months were thus fairly typical, with anti-whalers such as Britain, Australia and New Zealand trumpeting a new “Berlin initiative” to save the whale, just as Iceland returned to the hunt for the first time since 1989. Even if one side acquires some lasting advantage, a new stalemate can be achieved simply by the other side recruiting new allies to its cause. Set up in 1946 by the world's 14 main whaling countries, the IWC's membership has swelled to 51, and now includes such illustrious maritime powers as landlocked Switzerland (an anti-whaler) and Mongolia (a supporter).

Why does whaling arouse such passions? One argument that excites the anti-whalers is that whales are endangered, and that whaling therefore threatens their extinction. As Greenpeace, whose pioneering activism helped to secure the IWC's international moratorium on commercial whaling in 1986, declares in its fund-raising material: “The world's great whales are in trouble. A return to large-scale commercial whaling is just a hair's breadth away. We need your help!”

Seven of the 13 species of great whale, including the blue whale and the bowhead, are indeed considered endangered. But several—fin and Bryde's whales in some waters, and minke whales just about everywhere—are abundant. (In wonderfully inflammatory language, one Japanese bureaucrat has called minkes the “cockroaches of the sea”.) Iceland, Norway and Japan all contend that they want to catch only abundant species of whales. Norway counts 107,000 minke whales in its economic waters, and Iceland 43,000. Several hundred thousand more frolic happily in the southern Pacific. From this profusion of minkes, whose numbers grow at about 2-3% a year, Iceland takes 38 whales, Norway 711 and Japan up to 540.

Pirates in the deep green sea

Predatory these countries may be, but Iceland boasts some of the best marine-resource management policies in the world, which should not be surprising as fish products make up 70% (by value) of the country's exports of goods. Though Norway's fishing boats have a reputation for being pretty ruthless when it comes to salmon or sand eels, the Norwegian government is justifiably proud of the greenness of its policies, including those for fish-stock management. Even depraved Japan claims to have no desire to hunt the great whales to extinction.

Some anti-whalers appear to be in deep denial about these facts. At the IWC's meeting this year, for instance, Britain's fisheries minister, Elliot Morley, claimed that there were “no reliable stock estimates to suggest an abundant whale species”, thus contradicting the IWC's own scientists, who have endorsed the pro-whalers' estimates for the minke population. Richard Cowan, the chief bureaucrat on the British team, points out that Norway's estimate has fluctuated a bit, and dropped slightly recently. But that recent drop, suggests Halvard Johansen, Norway's senior official, may be because Britain childishly refused to let Norway count the minkes in the British sector of the North Sea, arguing that it would not be “in the best interests of the whales”.

AP

Not absolutely delicious, even unpolluted

Other activists, such as the World Wildlife Fund, appear to accept the evidence that the populations of certain species are recovering to healthier levels. Nevertheless, the WWF argues that it would be dangerous to allow the resumption of commercial whaling without first putting in place proper safeguards, and then ensuring they were administered by the IWC. This is a goal the whaling countries say they have been working towards for years but, thanks to the opposition of such countries as Britain, Australia and New Zealand, their efforts have been frustrated.

Sailing into the sunset

According to its charter, the IWC was set up to manage “the proper conservation of whale stocks and thus make possible the orderly development of the whaling industry”. In the years since the moratorium was imposed, the IWC's scientists have determined that in certain waters minke, fin, Gray and Bryde's whales are now abundant enough to be hunted commercially. They have also devised a conservative method for calculating catch limits. At first, the IWC's politically appointed commissioners refused to accept their findings, prompting the resignation of the scientific committee's British chairman, Philip Hammond, in 1993. Since then, the discussions have become bogged down over non-scientific issues, as the anti-whalers have frustrated all attempts to lift the moratorium. As justification for this behaviour, some anti-whaling governments talk about the IWC's “evolving” mandate. Mr Cowan suggests that one possible interpretation of the “orderly development of the whaling industry” is its “orderly running down to nothing”.

The anti-whalers' claim about the imminent return of “large-scale” commercial whaling, meanwhile, is badly misleading. Rapacious and uncontrolled commercial whaling (most notably by Britain and America in the 18th and 19th centuries) did indeed drive many species, such as the right whale and the sperm whale, close to extinction. But the whaling industry began its long decline more than 150 years ago, as demand for its products—which ranged from candles to lamp oil, corset whalebone, cosmetics and engine lubricants—evaporated with the appearance of petrochemicals, steel and plastics.

All that is left of this once-thriving business is the market for whalemeat and, on the available evidence, this market is small and stagnant. Whale is cheaper than beef in Norway. Yet, despite the Ministry of Fisheries' claim that whale “tastes delicious and is very healthy”, and despite the low prices at which Norway's modest catch is sold, it still has whalemeat left over for export. The Japanese, eager to resume whaling and by tradition a nation of whale-eaters, might be expected to be buyers, but they are not. They think Norwegian whalemeat contains too many pollutants to choke the stuff down.

They also think this of some Japanese-caught whales. But the Japanese anyway seem to have lost their taste for what was once a delicacy. Whalemeat is expensive in Japan, and little eaten. Only one restaurant in all of Tokyo, a gourmet's paradise, specialises in whale cuisine. No one seems to think the

market will grow much, even if prices drop. The government organises national whale-eating days and special events. But the young prefer burgers.

Iceland remains optimistic about demand. Stefan Asmundsson, Iceland's chief whaling bureaucrat, talks enthusiastically about long-term plans for opening up markets such as America, once commercial whaling is “normalised”. To judge by the state of American public opinion, he may have quite a wait.

In reality, pollution, merchant shipping and commercial fishing all pose far greater threats to the world's whale populations than any likely commercial-whaling industry might. Even though it seems to recognise this, the WWF argues that such threats should only intensify opposition to commercial whaling, because that would add to the pressures that do exist. The whaling countries return to their theme that the IWC was set up to regulate commercial whaling, not marine pollutants or other environmental nastiness, that other international bodies deal specifically with these environmental problems and, most pertinently, that they do not alter the basic fact that some species are abundant. “Our opponents like to put themselves up as environmentalists,” says Iceland's Mr Asmundsson. “They are, of course, not. To be against the utilisation of an abundant stock is not environmentalism.”

The anti-whalers supplement their environmental objections with policies based on notions of animal welfare or animal rights. Writing to the *New Scientist* last September, New Zealand's commissioner to the IWC, Sir Geoffrey Palmer, said the arguments against killing whales were “scientific, moral and ethical”. “Our attitudes to whaling are not based entirely on scientific evidence,” agrees Britain's Mr Cowan. “We have a view that killing whales is inherently cruel.”

Cultural cruelty is fine

That, apparently, does not matter—at least to the IWC—if the killing is done by certain people, even if their prey is less than abundant: the IWC gives various “indigenous” groups, such as the American Inuit, permission to hunt a few whales belonging to endangered species, supposedly because such people have a need that others lack.

By contrast, every Norwegian whaling expedition must by law include a qualified vet. According to Norway's government, these vets report that 90% of the whales killed by its fishermen die instantly, as a grenade attached to the harpoon blows the brain apart. The remaining 10% are dispatched swiftly with the use of a rifle. Boats station themselves above the whales, the minkes surface and quickly die. Indeed, Norway has become so proficient at humane killing that the United States—which sometimes joins Britain, Australia, New Zealand and others in condemning the barbarity of whaling—brings Norwegians over to Alaska to help improve Inuit techniques.

Alleging that whaling is inherently cruel, as the British do, often comes with the further claim that whales are somehow “special”: they are extraordinarily intelligent, perhaps, or spiritual, noble or peaceful, or they have some mixture of these qualities that makes killing them more reprehensible than, say, killing cows or pigs. Science has little to say about this sort of speculation. Whales look peaceful enough, though bull whales of some species bear the scars of fierce fighting with other males. Contrary to popular belief, only humpbacks “sing”, and not much is known about their purpose in doing so.

Are whales spiritual? If you like. Only remember also that, 150 years ago when “civilised” Britain and the United States competed fiercely for dominance of the whale-oil industry, polite society had a somewhat different notion of the noble giants of the sea. Then, they were brutal and heathenish. A notebook belonging to Thomas Nickerson, the cabin boy of the *Essex*, a Nantucket whaling ship, preserves a gripping account of how a “monster” of an enraged sperm whale sunk his ship in 1820. The sailors subsequently had to start eating each other to survive, a twist that no doubt would have tickled the whales.

As a final gibe, anti-whalers accuse whaling countries of cowardly deception, by conducting their whaling under the cover of “scientific research”. Only Norway calls its whaling commercial. (This is not illegal, because Norway reserved its position on the IWC's 1986 moratorium.) Iceland and Japan say they want to research whale diets to manage fish stocks more effectively. Iceland guesses that its minke whales eat about 2m tonnes of marine “biomass” a year—a bit more than its fishermen catch—and wants to know how much of that is, for instance, cod.

Sceptics sniff profits

Anti-whalers say this is a flimsy cover for commercial fishing interests, buttressing the Greenpeace line about the imminent return of large-scale commercial whaling. Yet neither Japanese nor Icelandic whaling can really be described as “commercial”, at least if that term embodies any concept of profits. The governments of both Japan and Iceland do recoup some of the costs of their research by selling the meat of the whales they kill—but this, they argue, they are required to do by the IWC, which stipulates that creatures killed for scientific purposes should be “processed”.

It is possible, however, that the desire of both Iceland and Japan to resume commercial whaling fills their governments with greater enthusiasm for these controversial research programmes than they might otherwise possess. Australian scientists have pioneered new methods of researching whales' diets that involve the analysis of their faeces and do not depend on killing them first. Iceland says these methods are not proven, but no doubt it also believes that its lethal research programmes help to keep alive the possibility that commercial whaling may one day be resumed. Were they to stop, the anti-whalers would be able to claim a victory that might help pave the way for the outright banning of all whale-hunting.

If the whalers are needlessly obdurate, their opponents can be just as needlessly hypocritical. Their mixture of propaganda, insults, distorted scientific half-truths and lies tends to stir up nationalist sentiment among the pro-whaling countries, who consider themselves victims of sanctimonious foreigners practising cultural and culinary imperialism. Not one member of the Norwegian parliament opposes his government's policy, says Norway's Mr Johansen. The public is solidly behind the government, say Icelandic officials. In Japan, where public opinion matters rather less in politics than some foreigners suppose, nationalist politicians also put up a robust defence.

Britain opposes whaling, explains Mr Cowan, “because that is what the public expects us to do.” But opinion surveys suggest that most Britons (as well as Australians, Americans and others opposed to whaling) believe wrongly that all whales are endangered, which happens to be the impression given by both Greenpeace and the British government. Research by the Japanese government leads it to believe that most Australians think there is only one species of whale—“the whale”—and that it is endangered. An effort paid for by the Japanese government to stuff leaflets through Aussie letterboxes appears not to be doing the trick.

How might this bizarre war of attrition come to an end? For a start, those opposed to whaling could look themselves in the eye and ask why a multinational organisation, reflecting the views of just one group, should claim for itself the right to deny other countries the freedom to kill their own animals, which are in plentiful supply, as they see fit? Should those who disapprove of the killing of animals according to kosher or halal practice set the universal slaughtering standards for Jews and Muslims? Should Hindus be allowed to impose their views about cow-killing on the world's hamburger-eaters? Should militant vegetarians have the right to forbid anyone anywhere to kill an animal?

In fact, less moralising from the anti-whalers might even serve their purpose better, if that purpose is indeed to save whales from the harpoon. The economics of whaling is unlikely ever to attract much hunting, and certainly nothing on a large scale. It is the politics that excites: politicians champion whaling in Japan, Iceland and Norway because it is popular to stand up to foreign bullying. Perhaps, too, if there were less bullying, Iceland and Japan might feel less compelled to lavish taxpayers' money on such elaborate and ambitious whale-killing research programmes. Were it not for the politics, Japan and Iceland might even be up to their elbows in whale faeces already.

Oops, another species gone

They might also admit that hunting can lead to the extinction of species, sometimes even within a very short time. The passenger pigeon, for instance, was once probably the most numerous bird in the world, with a population in the 19th century in the billions. But by the early 1900s it was extinct. Though farming and other pressures on its habitat—mixed hardwood forests—would have made it hard for the species to survive in competition with modern man, the *coup de grâce* had been delivered by hunting. It is not fanciful to argue that that might have already happened to some species of whale had their killing not been banned. Recent research, recorded in the *Proceedings of the National Academy of Sciences*, suggests that the slaughter of over half a million whales in the north Pacific between 1946 and 1979 caused such a fall in their numbers that the killer whales that used to prey on them turned their attention to other creatures, such as seals, sea lions and otters, whose numbers have yet to recover. Whale stocks have recovered a bit, but stand at only about 14% of their former levels.

Whatever the facts, however, the politicians and lobbyists are not going to stop scrapping. They are having far too much fun scoring cheap points for their “environmentalism” or the defence of their country's honour, or rattling the Greenpeace collection tin. Yet with fewer anti-whalers, there might in time be fewer whalers, too, as the politics, lacking proper cause, faded to nothing.

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The race for the White House

Let the games begin

Dec 30th 2003 | WASHINGTON, DC
From The Economist print edition

AP

The next 60 days will decide the Democratic nomination—and the shape of the presidential contest

THE coming months will see a flurry of electoral activity that is even more concentrated than in recent American election years. The first votes to pick the Democrats' presidential candidate will be cast in Iowa on January 19th and New Hampshire on the 27th, both slightly earlier than usual.

Thereafter, the votes come thick and fast. Seven states hold ballots a week after New Hampshire, including South Carolina (see article). Four days later come Michigan and Washington. Nine more hold their votes in February, and the process culminates on March 2nd—Tidal Wave Tuesday—with contests in ten states accounting for one-third of all pledged Democratic delegates to the nominating convention. They include California, New York, Ohio and Georgia.

The frontloaded timetable was designed by Democratic bigwigs to benefit one of their own—a senator, say, like John Kerry, John Edwards or Joe Lieberman, or Congressman Dick Gephardt, the party's former leader in the House. The idea was to give the establishment's anointee more time to raise money and heal wounds from the nomination battle before taking on the 800-pound gorilla, George Bush.

The timetable may still have that effect. But it seems almost certain to benefit a rank outsider. Cast your mind back a year. In early 2003, Howard Dean was one of the also-rans, the governor of a boutique state with about as much chance of winning as Carol Moseley Braun.

Now, the former governor of Vermont has achieved an unprecedented political transformation. By appealing to the party faithful's anti-war sentiments and especially their fury at President Bush, Mr Dean has won the “invisible primary”, the contest for money, momentum and endorsements. He is far ahead of the field in New Hampshire, and neck and neck with Mr Gephardt in Iowa (a state the congressman, who is from neighbouring Missouri, might have expected to win easily). Insurgent candidates have won the nomination before, of course—and Jimmy Carter went on to win the presidency. But no insurgent has become the prohibitive favourite before a vote has been cast.

There is many a slip twixt the cup and lip, of course: even successful presidential candidates tend to stumble at some point, and Mr Dean has already made a few slip-ups. Yet the plain fact at the moment is that the Democrats' cup is Mr Dean's to grasp. But how unified can the party be in 2004 if he is its candidate?

As his grip on the nomination has tightened, the Stop-Dean machine has gone into overdrive, with ever-fiercer attacks on his temperament, veracity and electability. Optimists (and Mr Dean's campaign staff) say that there is nothing unusual about these attacks: contested primaries are always bitter, and become even more so when an insurgent launches a hostile takeover bid against the establishment.

Besides, add the optimists, Mr Dean is not really out of the mainstream. Except over Iraq, his foreign policy would be squarely in the post-cold war tradition of tough-minded American multilateralism. He ran Vermont as a pragmatic centrist. Mr Dean, on this view, has plenty of ways to scramble back to the centre (by, for instance, picking a centrist running mate). And, because of the frontloaded schedule, the party will have plenty of time to rally round him before November.

Pessimists argue, however, that the divisions within the party, and unease about Mr Dean himself, are more profound than normal. Just before Christmas, Mr Dean said he was unwilling to pronounce Osama bin Laden guilty of the September 11th attacks before a trial—a curious restraint considering that al-Qaeda's leader has boasted about his role in them. Mr Dean has also said that Saddam Hussein's capture would not make America safer. Mr Bush's henchmen will use such pronouncements to paint Mr Dean as ambivalent about national security.

At the same time, Mr Dean has hammered a wedge into his party's long-standing ideological division by accusing Bill Clinton of not doing enough to stand up to Republicans, saying he had tried “simply to limit the damage they inflict on working families”. It was bad enough to be sceptical about the most successful Democrat in living memory. But Mr Dean also called the centrist Democratic Leadership Council (which Mr Clinton once led) “the Republican wing of the Democratic Party”.

Such criticism, argue the pessimists, goes beyond normal primary-season sniping to a structural problem facing the party itself. Mr Dean has so far been successful by mobilising party activists, but in doing so he has deepened the party's ideological rifts. Democratic moderates may not openly attack Mr Dean, assuming he wins the party nomination. But the risk is growing that they will sit this election out, waiting for more propitious times in 2008.

Over the next two months, then, most political activity will be on the Democratic side. Thereafter, attention will shift to the Republicans, because elections with a sitting president almost always turn into a referendum on the incumbent.

In the abstract, Mr Bush looks vulnerable. Asked “would you like to see Mr Bush re-elected?”, Americans are split down the middle: 46% say yes, 46% no. But beneath this apparent vulnerability, there is a hidden upturn in the president's fortunes.

Mr Bush's job approval rating stood at around 55% in December (one Gallup poll put it as high as 63%). That approval level is the highest for Mr Bush since June and, more significantly, higher than any of his four predecessors enjoyed at the same point in their campaigns.

That does not mean Mr Bush is coasting to victory. His father had a 52% approval rating in December 1991 and lost with 37% of the vote. Mr Carter had a 54% approval in December 1979 and lost with 41%. In both cases, the economy turned sour in re-election year. But in 1996, with the economy strong, Mr Clinton held on to almost all his December approval, while Ronald Reagan's vote in 1984 was higher than his rating of December 1983.

The notable feature of this historical pattern is that sitting presidents who fail on polling day do so after losing a big chunk of their December approval ratings (13 points for Mr Carter; 15 for George Bush senior). So one way of thinking about 2004 is to ask whether anything might happen to depress Mr Bush's approval rating substantially.

Clearly, it would have to be something big. A perception among voters that the drawbacks of the complicated new Medicare bill outweigh the benefits would not be enough. The obvious candidates are the economy and national security.

Democrats will attack Mr Bush as the first president since Herbert Hoover to preside over net job losses. They can also point out that he inherited a bouncing budget surplus and blew the whole thing. Yet this line of attack is likely to be blunted by the recovery in the second half of 2003: the economy has been roaring back, with 50,000 jobs being created each month and consumer confidence rising. A year before the re-elections of Presidents Clinton and Reagan, the University of Michigan index of consumer sentiment stood around 90. A year before the defeat of Presidents Bush and Carter, the index was below

70. In November 2003, it stood at 93.7.

So the economy could well push up Mr Bush's ratings. Even at its worst, the economy looks likely to be a wash in political terms. Criticism and praise will cancel each other out. That leaves national security as a point of vulnerability.

Obviously, a sharp deterioration in Iraq could damage the president. So, potentially, might a report, due in May, from a commission set up to investigate the attacks of September 11th. If that commission were to find, say, that low-level people in the administration had information that might conceivably have deflected that attack, it would hurt Mr Bush's claim that his administration has made America safer. To make matters worse, it is an open secret that the new Department of Homeland Security is barely getting to grips with improving domestic security.

On the other hand, all this is hypothetical. The Democrats would have to show not merely that the administration had failed (which they might be able to do) but that they themselves would do better (which they have not done thus far).

None of this means Mr Bush is a shoo-in. In a country as evenly divided and polarised as America, no one can be. But it must mean he starts as the favourite. And, on the eve of the first votes, the president's position is strengthening, while the Democrats are still fighting.

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The Democratic race

Carolina, here we come

Dec 30th 2003 | COLUMBIA, SOUTH CAROLINA
From The Economist print edition

But the choice may not be settled there

GEORGE BUSH'S presidency has not been kind to South Carolina. The state's unemployment rate hovers around 7%, the highest in nearly a decade. More than 100,000 jobs have been lost since 2000. But is economic pain enough to decide who will win the state's Democratic primary on February 3rd? South Carolina will be the first test of candidate-appeal in the South, a region where the party must do better if Mr Bush is to be beaten.

One obvious test is who can best attract the black vote, since blacks are expected to make up nearly half the Democratic turnout in the primary. This could be a problem for Howard Dean, the former governor of rather non-black Vermont. The opinion polls show that the Democratic front-runner is gaining strength in South Carolina, but not so far with blacks. Most of the faces at a recent Dean rally in Columbia were white. He has won the endorsement of Jesse Jackson junior, a black congressman from Illinois, but the congressman's father, the better-known Jesse Jackson senior, who comes from South Carolina, has yet to back anyone.

Two of the Democratic contenders are themselves black: Al Sharpton, who can often be heard preaching at Sunday morning services in black churches across the state, and Carol Moseley Braun, a former senator from Illinois. But neither of these is likely to face Mr Bush in November.

Of the more serious contenders, General Wesley Clark, now on a “True Grits” tour of the South, has often appeared with distinguished black companions such as Andrew Young, a former ambassador to the United Nations. Dick Gephardt has got the blessing of James Clyburn, the state's only black congressman. Even John Edwards from neighbouring North Carolina, though not a front-rank contender, is endorsed by a number of state and national black politicians.

Anyway, at least half of the voters in February's Democratic primary will be whites. Where will their vote go? Once upon a time the answer might have come from the state's textile industry, which is currently in high dudgeon about Mr Bush's willingness to let textile imports take local jobs away. The candidate who should benefit from this is Mr Gephardt, who says angry things about foreign competition. But nowadays the number of textile workers in South Carolina is shrinking rapidly, as car-manufacturing and tourism take a bigger role in the state's economy.

In the end, the most important factor may be events outside the state. The February 3rd contest is preceded by the New Hampshire primary and the Iowa caucuses. Donald Fowler, a shrewd local Democrat, says that “anyone who comes out of New Hampshire and Iowa with any credibility can win here.” Does the South no longer have a different voice?

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BSE in America

The cow who stole Christmas

Dec 30th 2003 | SHERIDAN, WYOMING
From The Economist print edition

A Canadian one, of course

SHE developed paralysis, poor thing, after giving birth to an unusually large calf. That changed her status from milk producer to “downer”, the dairy industry's word for a cow unable to stand up. The United States Department of Agriculture (USDA) estimates that downers account for between 130,000 and 195,000 of the total of 35m cows slaughtered each year.

Her owner, the Sunny Dene Ranch dairy farm near Mabton, in Washington state, sent her to Vern's Moses Lake Meats. She was given a routine test for nervous-system diseases, killed, then shipped to Midway Meats in Centralia, also in Washington, for deboning. No one could have guessed she was about to be the cow who stole Christmas. The test, taken on December 9th but not fully analysed until December 22nd, froze America's $27-billion-a-year cattle industry, the world's largest producer of beef. This Holstein had tested positive for bovine spongiform encephalopathy (BSE), a fatal neuro-degenerative sickness popularly known as mad-cow disease and caused, it is thought, by rogue, mis-shapen proteins called prions.

Humans can get a variant of BSE by consuming the brains or nervous-system tissue of infected cattle. Britain diagnosed its first case of BSE in 1986. It eventually spread to 180,000 cattle and was linked to the deaths of nearly 150 people.

The USDA at once quarantined the Sunny Dene herd and made efforts to recall the meat. Two dozen countries equally swiftly slammed the door on American beef exports, which earn $3 billion a year. The Asian market, particularly Japan, which buys about a third of those exports, was especially quick to ban American meat. Cattlemen cursed their bad luck after, at last, a year of decent prices.

Then, modest relief. On December 27th the USDA suggested that the infected cow came from Alberta, in Canada. This does not let the American beef industry off the hook. But it suggests—so far—that the cause of the trouble lies outside the United States. It was not such good news for Canada. Last May one case of BSE in northern Alberta led to a three-month ban on exports of Canadian beef and live cattle.

When will the cattlemen get their market back? The Americans hastily sent a team to Japan to try to calm Japanese fears and, more practically, to discuss the import of beef from animals less than 30 months old. Steve Kay, an expert on the cattle industry from Petaluma, California, points out that BSE has never been found in cattle younger than 30 months.

Much as officials once did in Britain, people from the USDA and the meat industry have rushed to assure Americans that their product is safe. Shares in McDonald's at first tanked, but recovered when the burger giant insisted it used strict safety standards. Yet America's meat industry still plainly has to pay more attention to what it feeds its animals and how it kills them.

On the feeding side, giving cattle ruminant-derived products such as bone meal was banned in 1997, but blood and gelatin managed somehow to get exempted. In slaughterhouses, tighter rules are needed to govern both the removal of the brains, spinal cord and other bits capable of harbouring BSE, and grizzly new techniques for stripping edible tissues from carcasses. There is also pressure inevitably to tighten up rules about slaughtering downers.

It is hard to imagine that America has only one mad cow. Stanley Prusiner of the University of California, San Francisco, who won the 1997 Nobel Prize for medicine for his work on prions, has said that a real outbreak of BSE in America is “just a matter of time”.

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Homeland security

Orange alert

Dec 30th 2003 | WASHINGTON, DC
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Terror, or at least the fear of it, returns

Get article background

ON DECEMBER 21st, just in time for the seasonal festivities, the Bush administration raised the terror alert a notch from “elevated” to “high”. This is the fifth time since September 11th that the alert has been raised to “code orange”—but it looks as if it could be kept at this level for quite some time.

Officials seemed to be more nervous than usual. Asked whether the alert was “truly serious”, Donald Rumsfeld, the defence secretary, replied “yes, you bet your life”. Unlike previous decisions to raise the threat level, this one was apparently unanimous.

The authorities have noticed a marked increase in “chatter” among supposed al-Qaeda operatives. They have also picked up specific threats—some of them, it seems, to do with hijacking aircraft and crashing them into buildings.

The targets reportedly included some big cities (Las Vegas is a particular worry), but more obscure places were also chattered about, including Rappahannock County, or perhaps the town of Tappahannock, both in rural Virginia, and Valdez, in Alaska. The point of any such terrorism would presumably be to make sure that no American anywhere felt safe.

A particular focus of concern has been in-bound flights from abroad. Air France cancelled six flights between Paris and Los Angeles at America's request. French authorities questioned and released a dozen or so passengers but several people with tickets, including one who was reportedly a trained pilot, failed to turn up for the flight. On December 29th some international airlines were ordered to place armed air marshals on flights over the United States.

On top of all this, there have also been more familiar signs of security being beefed up at nuclear plants, ports and other possible targets. Surface-to-air missiles have once again been conspicuously deployed in Washington, DC.

Inevitably, some people have begun to question whether putting the country on such a high state of readiness is worth it. The process costs about $1 billion a week. Critics worry that people will become blasé about repeated security alerts. They also complain about the government sending mixed signals: telling Americans they are in great jeopardy but also that they should go about their business as normal. On the other hand it is extremely hard to see what else the government could have done—without either ignoring credible threats or creating mass panic.

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Brazil's president

The year of changing unexpectedly

Dec 30th 2003 | SÃO PAULO
From The Economist print edition

Reuters

Having secured financial stability, can Lula move on to economic growth and effective social reform?

Get article background

“MUDANÇA” means change in Portuguese. It is what Luiz Inácio Lula da Silva promised a year ago when he became Brazil's first elected left-wing president. He would end the economy's habit of crashing like a virus-infested computer, lift millions of Brazilians out of squalor and give his country international heft to match its vast population and territory. A former trade-union leader born in poverty, Lula's arrival in the presidency itself embodied change.

Yet, a year on, both his successes and his failures have defied expectations. On the one hand, his government headed off yet another financial crisis by slashing public spending and raising interest rates, which smothered growth, squeezed wages and killed jobs. A law to trim public-sector pensions, approved last month, angered many traditional supporters of Lula's Workers' Party (PT), who had expected him to expand the state, not reform it.

On the other hand, the PT did not escape the pitfalls of a first experience of national power, albeit in a coalition with centrist parties. Some of its ministers have proved incompetent. Its social policy has been muddled. The party, which boasts of its virtue, has stooped to trading favours for congressional support just as its predecessors did. Its image may yet suffer further damage from a smouldering scandal surrounding party finance and the murder of a PT mayor before the election.

Yet the magic endures. After a year of recession, Lula is as popular as his predecessor was after his first year (of boom). Abroad, he is a spokesman for critics of the United States' way of doing things, from trade to the Middle East. “People have never been as supportive of a government as they are of this one,” says Raquel Teixeira, a congresswoman from the opposition Brazilian Social Democracy Party.

Opinion polls show that most Brazilians are prepared to give Lula time, but that their patience is not endless. Unless the economic pain proves temporary, disenchantment will surely grow. So can Brazil's first government of the left now bring about the kind of sustained job-creating growth that has eluded its predecessors for the past two decades?

The omens from Lula's first year in office are encouraging. He gave stout backing to the finance minister, Antônio Palocci, who administered a “credibility shock” upon taking office by voluntarily raising the target for a primary fiscal surplus (ie, before interest payments) from 3¾% of GDP to 4¼%. This, plus the pension reform, convinced investors that Brazil was serious about containing its huge public debt. The central bank, meanwhile, raised interest rates. The austerity hurt, but inflation retreated (see chart). With interest rates now falling fast, the economy may grow by as much as 4% in 2004, having stalled in 2003.

Lula has also been a deft manager of Congress, pushing through contentious measures such as the pension reform by striking broad alliances and gaining support from the opposition when necessary. “We did not lose one important vote in 2003,” boasts Luiz Dulci, a senior aide to the president.

All this adds up to the equivalent of mastering level one of a video game. The familiar target of macroeconomic stability does not disappear from level two but new targets pop up. The most important aims are more long-term investment, without which the economic recovery will quickly peter out, and cutting poverty, through welfare programmes and better education and health services. Here, the line between effective government action and unproductive meddling can be a fine one. Mistakes are not immediately detected and punished by the financial markets, as they are in macroeconomic policy.

In both microeconomics and social policy, Lula has started unsteadily. He came to office criticising Brazil's regulatory agencies, which are supposed to shield contracts from political whim. His telecoms minister invited consumers to go to court to overturn a tariff increase blessed by the regulator. The government “didn't create conditions for a revival of infrastructure investment,” says Adriano Pires of the Brazilian Centre for Infrastructure, a consultancy in Rio de Janeiro. The government also stumbled on welfare, betting on a big programme called Zero Hunger, which was roundly mocked as old-fashioned and ineffective.

Lula's team has been supple enough to bend on both issues. The government is now promising a new investor-friendly regulatory policy, as well as rules to encourage partnerships between the cash-strapped public sector and private enterprise. The idea is to “favour productive investment, especially in infrastructure, so it can sustain a new cycle of growth,” says Mr Dulci. But tension will persist between Brazil's market economy and a party accustomed to seeing markets as the enemy of social equality. The evidence so far is that the outcome will sometimes be an awkward synthesis, arrived at after drawn-out debate.

A long-awaited “new energy model”, unveiled in December, may set the pattern. This is the government's scheme for avoiding a repetition of the 2001 blackout, which hobbled the economy. It grants the authority to award concessions for building power stations to the energy ministry. It leaves the ministry much room to rewrite the rules, and private investors have damned the model as “statist”. Moreover, the government has no intention of privatising electricity generation, 80% of which is in the hands of state companies.

Yet if the government sets clear and stable rules, the model may achieve its goal: new investment in energy at prices that reflect its true economic cost. Long-term contracts, which will pay generators a fixed charge for building and maintaining plants, will shield them from the vagaries of Brazil's volatile market. The ministry has discarded a populist plan to hold down the price of electricity by buying it cheaply from old hydro generators whose investment has already been written off.

This pattern of edited improvisation applies to social policy, too. Zero Hunger continues, but its importance is likely to be eclipsed by the Family Fund, which unifies a clutch of income-transfer programmes for the poor that had been scattered among various ministries.

Education has been hurt by the PT's ideological instincts. The new minister, Cristovam Buarque, when governor of Brasília pioneered the bright idea of giving cash to poor families if they would send their children to school. But his ministry has disappointed enthusiasts for university reform. It created a commission which proposed scrapping the *provão*, an exam which evaluates universities. Though disliked by students' unions, this is one of the few tools with which to improve the (poor) quality of teaching. Mr Buarque seems to have recognised this: he now says he will modify, but not scrap, the *provão*.

He also unveiled a noble-sounding drive to make every Brazilian literate within three years. This might give many people, including the elderly, a smattering of literacy. But the same money could be used to teach Brazilians aged 15-30 how to read and write proficiently, a more important goal, says Ms Teixeira, a former state education secretary from Goiás. Like many other specialists, she pronounces the

education policy “worrying”.

Some Brazilians are also concerned by Lula's foreign policy. This seems to give greater emphasis to standing up to the United States than to a clear-headed pursuit of Brazil's interests. The president's frequent foreign jaunts have featured places such as Cuba, Libya and Syria; in global and regional trade talks, Brazil has led a charge against rich-country trade barriers but has seemed equally reluctant to liberalise itself. This pugnacity abroad at least provides some political cover for macroeconomic moderation at home.

In sum, what drives the government is Lula's own fusion of fervour and pragmatism. Unlike many other members of his party, he cares more about the overall goal than the methods used to achieve it. He insists that he is a negotiator, not an ideologue. His personal history bestows legitimacy on that pragmatism, making it look less like compromise. When Lula says that it does not matter whether services for the poor come from the public companies or private ones, it is hard to argue.

The coming year may bring more realism and competence to his administration as a whole. It is likely to open with a shuffling of ministerial posts, intended partly to bring into government the centrist Democracy Movement Party, the second-largest in Congress, which helped Lula pass pension and tax reforms. This may also weed out the weakest ministers and perhaps reduce their number from an unwieldy 33.

Lula's bluff reassurances do not still all doubts. Despite Brazil's best efforts, its giant debt means it remains vulnerable to outside events. A rise in international interest rates, for example, could suck capital away, forcing up domestic rates and halting recovery. Lula might then be tempted to ditch austerity and dash for growth in time for the 2006 presidential election. Another worry is that the president may never tackle many of the big reforms that Brazil needs if it is to achieve faster growth, including the modernising of a state that consumes 40% of GDP, shackles business with hefty taxes and makes employment needlessly expensive. Even Lula's appetite for change has limits.

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Guatemala's presidential election

Oscar night

Dec 30th 2003 | MEXICO CITY
From The Economist print edition

An election winner stirs faint hopes

Get article background

MILD enthusiasm and hope of change in a country that has not had much to cheer about for decades. Such was the reaction to the expected, though narrow, victory of Oscar Berger in a run-off presidential election on December 28th. Mr Berger, a conservative businessman, won 54% of the vote, against 46% for Álvaro Colom, of a centre-left coalition. Will Mr Berger now be able to summon up the will and political muscle needed to reform Guatemala?

The evidence from the election is ambiguous. At least it passed off without incident. The first round, in November, saw much intimidation and some violence, mostly from supporters of General Efraín Ríos Montt, a former dictator and backer of the outgoing president, Alfonso Portillo. Then, an unusually high turnout of voters roundly rejected Mr Ríos Montt.

Mr Berger, a member of Guatemala's small white elite, has much political experience, having twice been mayor of Guatemala City. He lost to Mr Portillo in the last election, in 1999. He has the support of local business and much of the middle class. His alliance was in power from 1996 to 2000, when it concluded a peace agreement which ended a 36-year war between the army and left-wing guerrillas. Mr Berger's victory will also please the United States, with which Guatemala has recently concluded free-trade talks.

But Guatemala suffers deep-rooted problems. These include corruption and the rise, on Mr Portillo's watch, of what some Guatemalans call the “parallel powers”—a murky congregation of drug traffickers, other criminal racketeers, serving and retired military and police officers and some government officials.

Mr Berger has promised to govern honestly. He is also seeking allies. He has offered government posts to fellow-businessmen and to Rigoberta Menchú, a campaigner for the Indian majority and a past winner of the Nobel Peace Prize. Ms Menchú turned him down, however.

He will be handicapped by the lack of a majority in Congress, where Mr Portillo's party will be the second largest. Mr Berger has backed calls for General Ríos Montt to be tried for atrocities during the war. His best hope of support for his proposed reforms may lie with Mr Colom. The two men offered similar platforms. Guatemalans have heard many promises of reform before. They will need some convincing that it is really on the way.

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Wealth in Asia

Consuming passions

Dec 30th 2003 | BANGALORE AND DELHI
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Corbis

New wealth is challenging the established order in the world's two most populous countries. Our correspondents report from India and, in the next article, from China

A FESTIVE Christmas Eve at Geoffrey's, a “British pub” in Bangalore, was much like any other night these days. The bar was full of twenty-something carousers; loud rock music drowned out the televisions replaying Indian cricketing triumphs; smoochers were discreetly smooching; the mood was relaxed, jolly and above all, prosperous. Bangalore, known as the hub of India's information-technology industry, also claims to be the capital of its pub culture. The two boasts, of course, are linked. The explosion of the IT business and its offshoots has helped produce a new breed of young professionals with money in their pockets and their own ideas on how to spend it. Imported malt whisky at 500 rupees ($11) a shot—about what an agricultural labourer earns in a week—is one option.

The feel-good glow among Geoffrey's patrons is caused by much more than mere alcohol, though. The Indian economy, following an unusually lavish monsoon, is growing at a rate of 7% a year or more. Economic recovery in the United States, the biggest market for India's IT industry, has not dented American companies' zeal for cost-cutting. “Every company needs an India strategy,” says Kiran Karnik, who heads Nasscom, the Indian IT industry's lobby. Indeed, hardly a day goes by without news that a big firm is shifting to India some of its back office: software development, accounting, insurance-claims processing, call-centres and so on. In the past month it has been reported that IBM is to move 4,700 jobs to India and China, and that Barclays, a British bank, is close to a deal that would see over 1,000 software-development jobs go to India. Giant companies such as Microsoft, GE, HSBC, American Express and Intel already employ thousands of people in India.

The lure is a well-educated English-speaking workforce whose wages, compared with those commanded by Americans and Britons, are peanuts. Not, however, by local standards. Rohit Kapoor, president of EXL, an outsourcing firm with three centres near Delhi, says a freshly recruited contact-centre worker may expect to earn 10,000 to 12,000 rupees a month, plus a performance-linked bonus. Mr Karnik points out that that is often pocket money, since many will continue to follow Indian custom and live at home until they marry. Opportunities for the best workers are spectacular. Mr Kapoor says that some of his managers, who have been with the company for just three or four years, are earning 150,000 rupees a month. Such sums would have been unimaginable for Indians a few years ago.

Suhel Seth, of Equus Red Cell, an advertising agency in Delhi, calls it the “yuppification” of India. He cites two ways in which the phenomenon is challenging Indian tradition. First, young people positively relish

conspicuous consumption. They do not share the qualms felt by their parents, brought up in a climate that mixed Nehruvian socialism with ancient Hindu ideals of renunciation. “Rolex”, says Mr Seth, with his profession's knack for pithy hyperbole, “has replaced religion.”

Second, and potentially of vast significance for a country as stratified as India, this is bringing about a “second unification”, in which the young and affluent across the country define themselves not just by caste, creed and language, but by a shared consumer culture, spread by television, which now reaches nearly half India's homes. As a result, spending patterns are changing.

Mr Seth says they used to be dominated by three big needs: a car, a home and a bequest to pass on to the next generation. India still has a very high savings rate—nearly a quarter of GDP—but recently consumer spending has started to outpace economic growth. According to KSA Technopak, a consultancy, discretionary consumer spending grew at an annual rate of 12% in 2002. KSA's Vatsala Mishra sees “the signs of affluence” everywhere in the data. The share of income spent on such basics as groceries and home appliances has been falling, as people spend more on relative luxuries, such as eating out, holidays, the cinema, cosmetics and gifts.

Lifestyles are changing in other ways, too. Many of the young no longer live at home. Those who flock to Bangalore to join giants of the local software industry such as Wipro and Infosys will often share rented accommodation with colleagues. EXL provides an accommodation service to help new employees find flatmates.

All this is creating business opportunities. Witness the astonishing spread, in a tea-drinking nation, of stylish coffee bars such as the Barista chain. Or the rush to build shopping malls and plush new multiplex cinemas. Or upmarket watering holes such as Bangalore's F bar, where, in the absence of an actual fashion show, drinkers can sip under a large-screen display of Fashion TV, the closest Indian television comes to soft porn.

Many argue, however, that the transformation wrought by the new urban affluence is superficial. Even Mr Seth says that India's “cultural DNA” will not change. Perhaps so, but perhaps not. One F bar habitué is in many respects typical. A talented software engineer, he shares digs with college friends. He loves his job and enjoys going to bars but, still, his biggest items of expenditure are his flat, his motorbike and sending money home.

Yet he met his fiancée at a party, not in the traditional, partly-arranged way. His parents, an army couple from the north, are happy with his choice. Hers, however, are aghast, wanting her to marry within her own region and caste.

Still, many others, more or less willingly, will marry a partner chosen or vetted by their families. In that sense, the new affluence may not herald a social revolution just yet. Still less does it imply change in the India inhabited by most Indians: the countryside. A study in 2001, which Nasscom's Mr Karnik believes still stands, forecast that by 2008 India's IT and other service exports would account for a third of the country's inflows of foreign exchange. However, they would directly employ only 2m people. Thus they could absorb but a fraction even of the 2m or so English-speakers who graduate from university each year. Set that against the vastness of rural India, where 700m people must live their lives without even a whiff of a cappuccino, and the new yuppiedom still seems pretty exotic.

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Wealth in Asia: China

Speaking out

Dec 30th 2003 | BEIJING AND XUSHUI
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Businessmen are starting to challenge the authorities

CHINA'S first communist leaders once declared that Xushui county in the northern Chinese plain would be a trailblazer in the country's progress from socialism to full communism. They ordered Xushui to complete the transition in just five years, by 1963, but the experiment, part of the Great Leap Forward, ended in famine and economic ruin. Today Xushui is awash with capitalism, with a myriad of privately-run restaurants (many of them specialising in donkey-meat, for which the county is famous) and an agricultural conglomerate that ranks as one of the biggest private enterprises in China. All the same, Sun Dawu, the conglomerate's millionaire owner, has learnt the hard way that private businessmen like him must still tread a careful line.

In May 2003 Mr Sun received a telephone call from a friend saying the newly-appointed Communist Party secretary of Xushui wanted to have lunch with him at a hotel in the county town. When Mr Sun arrived he was arrested by plain-clothed police. He was tried by a county court in October, and convicted of illegally accepting $1.6m in deposits from local residents.

Sun behind a cloud

Mr Sun's real sin had been to stand up for his business. The troubles faced by a deposit-taking scheme run by his Dawu Agriculture and Animal Husbandry Group highlight the difficulties many private businesses face raising funds from state-owned banks. The party claims to encourage private business these days, but the banking system is heavily biased in favour of state-owned enterprises. In a speech at the Beijing Institute of Technology a few weeks before his arrest, Mr Sun complained that the system forced many private businesses to take either what he called the “red road” (red denoting the mandarinate since the time of the Qing dynasty) of bribing officials for loans and other benefits, or the illicit “black road” of producing fake or shoddy goods. At Peking University in March, Mr Sun boldly accused rural state-owned banks and credit co-operatives of “financial oppression”, with lenders demanding kickbacks worth 10% to 15% of loans.

Many private businesspeople in China make such complaints in private. But by delivering his speech in universities (where the authorities are still likely to be haunted by memories of the student-led protests of 1989), Mr Sun strayed beyond the line of acceptable behaviour in the eyes of party officials. “Do you think Peking University is like your home where you can say what you want?” asked one of Mr Sun's police interrogators, he says.

For this is exactly the sort of thing the party hates: a rich entrepreneur who is not content simply to make money and accept corruption in government. In the aftermath of 1989, the party heaped particular abuse on Wan Runnan, a leading businessman who sided with the demonstrators and subsequently fled the country. Since then, most of China's fast-growing ranks of rich businessmen have preferred to play things safe.

Yet at Mr Sun's trial something remarkable happened. The judge let him off with only a three-year suspended sentence and a fine of $12,000. Lobbying on his behalf by Chinese intellectuals may have helped. Even the state-controlled newspapers were favourable towards him, not by order of the party but because the journalists sympathised with him.

Such independence is growing as the Chinese media become less dependent on government subsidies. The sweeping leadership changes since late 2002 may have also played a part. The new leaders are trying to appear more in tune with the downtrodden. Imprisoning a personality who is also known for articulating the grievances of peasants would not help them.

Since his release, Mr Sun has become a bit more wary. He has turned down invitations to give speeches and devoted more time to entertaining local officials. In recent months Dawu has been setting up a Communist Party committee, a feature common to large enterprises in China but a first for Dawu. And Mr Sun is scaling down his deposit-taking operation, restricting it now to company workers.

But will all this help Mr Sun at last get his bank loan? About that he remains doubtful. He says he has been told he can apply for one in 2004, but has been given no indication whether it will be successful.

Mr Sun reckons it will take months to repair the damage inflicted on his business by his six-month internment. But he says he has received considerable support from other leading private businessmen around China, including letters from 30-40 big companies. Liu Chuanzhi, chairman of Legend, China's biggest computer-maker, which is listed in Hong Kong, publicly congratulated him on his release. Mr Sun says entrepreneurs tell him that his remarks reflect their own “hidden sufferings”.

For all his troubles, Mr Sun still has ambitious plans. He already runs primary and secondary schools, and a small hospital, which he says are profitable. He wants to add a university in the next two or three years, as well as a park dedicated to famous world figures (he offers Abraham Lincoln and Jesus as examples). But he may not be speaking out as much. “There are many Sun Dawus in China. But they work, they don't speak.” For now.

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China

The east is glossy

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Magazines herald an age of consumption

THE brash, high-living Shanghai of the early 20th century is making a vigorous comeback. In glitzy new hotels, members of the city's fast-growing rich elite are learning how to party like their counterparts in America or Europe. The dream of foreign makers of luxury goods is beginning to come true. And so the glossy magazines that glorify such luxuries are flooding into what publishers see as the world's most promising new market.

“There is a large number of new rich Chinese people who are willing to spend money on luxury items,” gloats Yu Lei, who edits *Shanghai Tatler*, a glossy whose 60,000 monthly copies are mostly sent free to Shanghai's top earners. The magazine was set up last year by the owners of *Hong Kong Tatler*, which is modelled on (but not related to) London's *Tatler*. Most of the magazine's advertising comes from expensive foreign brands. Mr Yu says the magazine has been making a profit since September. The launch of a Beijing version is planned this month.

Dozens of foreign magazines now have Chinese-language editions, joining a rapidly expanding array of local publications aimed at every consumer group from car enthusiasts to teenagers. Production is hampered by a shortage of sophisticated talent in areas such as fashion photography, styling and make-up. A ban on outright foreign ownership means that foreign magazines have to find Chinese partners (although, as the state withdraws subsidies for domestic publications, willing collaborators can readily be found). But the restrictions on foreign control of distribution networks will be lifted in December this year.

Yet, for all its air of cosmopolitan chic, Shanghai is not yet quite used to the idea of large, grand, western-style parties, photographs of which are the meat and drink of *Tatler*s elsewhere. The very rich, says Mr Yu, avoid being photographed because they fear demands for donations or, worse still, visits from tax inspectors. Most Chinese businessmen prefer to entertain in restaurants or karaoke parlours. After *Shanghai Tatler* ran a piece recently on lesser-known billionaires in the city, some of those mentioned were “not happy”, he says.

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The Philippines

The price of affluence

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Even the middle class fears kidnapping

FOREIGNERS may fret about the threat from the Philippines' Muslim terrorists and separatists, but for well-to-do Filipinos, the country's biggest security problem is something more mundane: kidnapping. On one estimate, more than 160 kidnappings took place in 2003. In late November, wealthy Filipinos, of Chinese origin for the most part, turned out in force to protest the government's inefficiency in the face of this crime wave. Indeed, the fury and influence of rich Filipinos is such that kidnapping has become a hot political issue in the run-up to elections in May.

Kidnapping has long been a problem in the Philippines, which in terms of crime, if in no other way, has more in common with Latin America than its neighbours in South-East Asia. Until recently, government officials claimed the number of incidents was falling. But non-governmental organisations assert the opposite: kidnapping, once the scourge of the rich and famous only, is now afflicting the middle class, with ransoms as low as 100,000 pesos ($1,800). As few as 15% of victims go to the police, they say, for fear that the authorities would bungle a rescue, hamper the payment of a ransom, or conspire with the criminals for a share of the payout. At any rate, there are plenty of infamous cases to keep the public riled, such as the recent abduction and subsequent murder of a Coca-Cola executive. Her body was found in a rubbish bag on Manila's waterfront.

Betti Sy, the executive in question, was Chinese-Filipino, like most of the victims of kidnapping. Chinoys, as they are called, make up just 3% of the population, but dominate local business. Their wealth gives them influence far beyond their numbers, especially when politicians are in need of donations to mount election campaigns. In December, for example, President Gloria Arroyo put their interests above those of the Catholic church when she reversed a moratorium on executions, for kidnappers and rapists only. She has also put a former defence minister in charge of a special anti-kidnapping unit.

But critics point out that the National Anti-Kidnapping Taskforce is simply the latest of many grandly named squads, none of which has achieved grand results. Over the past five years, fewer than 10% of kidnapping trials have resulted in any convictions. Eric Alvia, the head of an NGO called United People Against Crime, points out that the government itself encouraged kidnapping by allowing Libya to ransom foreign hostages held by Abu Sayyaf, a terrorist group with a sideline in crime. It has not criminalised the payment of ransoms, nor made much effort to monitor payouts so as to nab perpetrators.

Now, however, Mrs Arroyo has an extra incentive to crack down. Panfilo Lacson, one of her presidential rivals, rose to prominence as a ruthless police chief—so ruthless that he is being investigated for the murder of several suspects under his watch. Another candidate, Fernando Poe Junior, used to give villains their come-uppance on the silver screen. Mrs Arroyo herself sometimes tries to look tough, once dressing up like the alien-bashing cops of the film “Men in Black”. To win May's presidential race, she will need better crime-fighting credentials.

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Iran's earthquake

Now wait for the political tremors

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Getty Images

The political after-effects of a terrible earthquake are already being felt

DISASTER could hardly have struck at a worse time or taken a less anticipated form. Before dawn on December 26th, a Friday, the Muslim day of rest, the sleeping town of Bam was all but razed by an earthquake measuring 6.7 on the Richter scale. More than one-third of the town's 80,000 inhabitants were killed, either immediately, or later in the rubble of their homes. The authorities were ill-prepared. It was Bam's first big quake in a millennium.

New and old, public and private, the buildings of Bam had one thing in common: their disregard for anti-earthquake regulations. Even the swankiest homes collapsed: the governor was the only senior official to survive. Two hospitals were destroyed. Prisoners fled a wrecked jail on the edge of the town. One man, forewarned by a subterranean rumbling, had spent the night in his car. He survived but lost about 40 relations. Fearing after-shocks, survivors clogged the road to Kerman, the provincial capital.

In Tehran, Iran's capital, more than 1,000km (621 miles) north-west, sclerotic state organs lumbered into action. The Iranian Red Crescent was hindered by the concentration of its stores and people in the quake-prone north. As a result, thousands of survivors in Bam spent two freezing nights without the tents they had been promised. The few bulldozers that arrived promptly to sift through the rubble stopped working at nightfall. Most “rescue” operations were in fact exhumations by the bereaved, using their bare hands.

On the whole, the Iranians seemed unable to co-ordinate the emergency teams that were dispatched from 26-odd countries, including the United States, the Islamic republic's bitter enemy. Would-be rescuers were stuck in their own countries, while the Iranians got around to issuing them with formal invitations. When they arrived at Bam's tiny airport, no one was on hand to guide them to those parts of the town where they would be of most help.

On the evening of December 28th, as supplies rolled belatedly into Bam, the authorities abandoned hope of finding more survivors, and foreign helpers prepared to go home. The interior minister said that more than 15,000 bodies had been buried; by December 30th an official said the final death toll would exceed 28,000, though it was unclear whether that figure included the many casualties in villages nearby.

For a few days, the reformist supporters of President Muhammad Khatami and their rivals in the clerical establishment, which rallies around Iran's “supreme leader”, Ayatollah Ali Khamenei, gave up their vicious politicking. In scenes reminiscent of the Iran-Iraq war in the 1980s, ordinary Iranians responded to the disaster by piling up food and clothes at collection points across the country.

In a trip to Bam on December 29th, Mr Khamenei pledged that the town would be rebuilt, “stronger than ever”. That would be some feat. The town lost its Persian-speaking middle class long ago, to gradual migration. It, in turn, was replaced by tribal Baluchis, whom Persians tend to look on with distaste, partly for their reputation as traffickers of drugs.

More recently, the authorities tried to develop Bam by rebuilding the ancient town as a tourist attraction and by building a car factory on the edge of the desert. The plant still stands but the celebrated mud-brick citadel was ruined in the quake. As for the palms that produce Bam's famously succulent dates, they survived. But the underwater channels that irrigated them may have collapsed.

Iran's brief unity may not engender lasting good sense. Bam is too distant, its concerns too peripheral, for its agony to have much effect on building techniques in vulnerable cities like Tehran, where developers and regulators pay scant attention to best practice.

But the catastrophe may have one benign effect: a lessening of the Islamic republic's distrust of foreigners. That distrust was evident in 1990, when the Iranians turned down many offers of outside help in the aftermath of a previous catastrophic quake and officials denounced sniffer dogs as “unclean”. Mr Khatami, in recent days, has showed no such qualms, appealing for help from all bar Israel. Some people in Bam were rescued thanks to the once-reviled canines.

Mr Khatami's conservative rivals have mixed feelings about foreign help. During his trip to the area, the supreme leader did not deign to mention the mainly western countries that had rushed to Iran's aid, let alone thank the rescuers in person. That is not untypical of Iran's stand-offish conservatives. On December 26th, while survivors of the disaster surveyed the wreckage of their lives, Mr Khamenei found time to extol at length the merits of making the pilgrimage to Mecca.

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Libya

Beating swords into oil shares

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Libya's leader has promised to ditch his weapons of mass destruction

AP

MUAMMAR QADDAFI is not a man for half-measures. Not only did Libya's leader stun the world with his decision, on December 19th, to scrap years of costly weapons research, and to show all and tell all. He also called on other countries to follow suit, and did so in the full knowledge that this would boost the standing of two of the Arab world's least-favourite men, George Bush and Tony Blair.

What drove the former revolutionary to this sudden, total climb-down? Fear seems a possible reason. American commentators on the right have been quick to claim that it was the sight of a fellow dictator in chains that prompted Mr Qaddafi to surrender pre-emptively, so vindicating the Bush administration's hardline policy towards weapons proliferators.

Mr Qaddafi and Saddam Hussein certainly have some things in common. After taking power in coups in the late 1960s, both leaders proceeded to blow vast oil riches in the vain pursuit of glory, alienating the West and tormenting their own people. Both enriched their fellow tribesmen and families, while bullying neighbours and sponsoring terror beyond their borders. Mr Hussein's ignominious end cannot have cheered Mr Qaddafi, who is said to have spent hours in private replaying video footage of his rival's capture.

Yet the Libyan regime has killed far fewer of its opponents—probably dozens rather than tens of thousands. Moreover, Mr Qaddafi has spent much of the past ten years trying, albeit not always effectively, to prove that he has mended his ways. In 2003, for instance, he accepted Libya's responsibility for blowing up a Pan Am flight over Lockerbie in 1988, some two years after a trial abroad when a Libyan was convicted of the crime, and paid hefty compensation to the 270 victims' families. This led to the lifting of UN sanctions.

The new anti-terrorist

Less widely noticed have been Libya's quiet intelligence support, since September 11th 2001, for the global war on terror, the reduction of its once-generous backing for distasteful African regimes, and the halting but striking efforts to shake open its economy. The appointment last June of an American-educated economist, Shukri Ghanem, as prime minister marked a new seriousness about reform. Moreover, it was Mr Qaddafi—not western powers—who initiated the secret bargaining with America and Britain that led to his weapons disclosure. The talks began nine months ago, before the war in Iraq.

Although his motives have been obscure, it may be that his weapons climb-down was inspired less by concern for his head than for his legacy. Rumours of ill health aside, his 34-year rule has plainly produced diminishing returns for ordinary Libyans. A rebellion by Muslim radicals in the east of the country was easily crushed in the late 1990s, but widespread discontent about erratic government still brews. If Mr Qaddafi hopes eventually to cede power to his 31-year-old son Saif al-Islam, as many believe, he would do well to put the inheritance in order. Besides, the increasingly influential junior Qaddafi is on record saying he wanted his country to be “strongly linked to the developed world and a safe haven for foreign investment.”

Libya's workforce is growing by 4% a year. Despite government overstaffing, unemployment nudges

25%. In 2003 the country sold oil worth around $12 billion but it produces only half as much as in the 1970s. Plenty more of the stuff is in the ground, and only a quarter of the country has so far been explored for oil, so Libyans could have been twice as rich, if only their government had not scared off foreign companies, especially American ones, with the know-how to find it and get it out.

Before America slapped its own, still-enforced, unilateral sanctions on Libya in the 1980s, American companies dominated the oil industry. Other foreign, particularly European, companies entered the fray in the interim, but Libya kept the old American concessions on hold, not out of gallantry but in the hope that oil-industry lobbyists would eventually persuade the American government to relent.

Given the petro-background of many of Mr Bush's men, such persuasion should mute objections from those in Washington who want to change the regime in Libya before dropping sanctions or restoring ties. Share prices for the main American companies with Libyan interests surged 10% thanks to Mr Qaddafi's dramatic retreat. But another reason may prod America to soften its attitude still more. Libya's oil reserves are the largest in Africa, as big as America's own reserves, and the Bush administration has declared a strategic interest in diversifying America's oil sources away from the Gulf.

Libya has pursued its charm offensive by asking the International Atomic Energy Agency to set up a comprehensive monitoring mechanism. In fact, Libya's effort to concoct an atom bomb never got very far, and its small stock of rudimentary chemical weapons is probably already in the rubbish bin. Good behaviour, it seems, goes hand in hand with good business.

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Arab economies

Improving?

Dec 30th 2003 | CAIRO
From The Economist print edition

Despite the region's instability, some economies are doing better than usual

WHEN war in Iraq loomed, the country's Arab neighbours predicted dire economic consequences for themselves. Egypt's government said it expected the country to lose $2 billion-3 billion, with tourists flocking elsewhere and fat contracts with Iraq abandoned. Jordan and Syria dreaded a cut-off of cheap Iraqi oil. Bahrain and Dubai feared a flight of investors. Regional shippers bemoaned hefty increases in their insurance bills.

In fact, Arab countries have done quite nicely, thank you. Several of the biggest oil exporters saw their incomes surge by a good 30% this year, as prices stuck at the comfortable end of OPEC's $22-28 target range. Saudi Arabia earned a delicious $74 billion from oil, letting its government bank a budget surplus of $12 billion, marking only the second time in 20 years it has balanced its books. Throughout the Gulf, the windfall has encouraged governments to invest in infrastructure on a scale unseen since the 1970s' oil boom. The reckoning that economists have long predicted, with oil monarchs failing to pamper their growing number of subjects, has again been put off.

But it is not just governments and contractors cashing in. The All-Arab Index, which tracks 79 stocks in 12 Arab countries, posted a gain of 50% in dollar terms in 2003. Another index reckoned that Kuwait's shares, boosted by heady profits for local firms servicing the American army and by the surge of joy due to the end of an Iraqi invasion threat, have doubled in value. Saudi Arabia's soared by a more modest 74%. Even the dowdy Cairo exchange, stalled for years by local troubles including an inexorable slide in the value of Egypt's currency, advanced by 60% in dollar terms.

Awash with cash, banks in Saudi Arabia saw profits rise by 15% in the first nine months of 2003, and those in the United Arab Emirates by an average of 30%. Egypt's Suez Canal, whose revenues have stayed flat at $2 billion a year for a decade, this year earned 32% more. Arab firms are also starting to do well out of reconstruction in Iraq. Egyptian and Kuwaiti ones are building the country's mobile-phone networks, with contracts for restoring power generation, water supplies and other such huge projects likely to follow.

As for those fickle tourists, they seem to have more nerve than expected. Lebanon has enjoyed its best year since 1974, the last year before civil war wrecked its reputation as the Switzerland of the Middle East. And Egypt hosted a record 6m tourists this year, up 20% on 2002.

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Reform in Tanzania

Nyerere betrayed, fortunately

Dec 30th 2003 | DAR ES SALAAM
From The Economist print edition

As the country's main hospital shows, the government is serious about reform

JULIUS NYERERE, the socialist who founded and nearly destroyed Tanzania, must be grumbling in his grave. His protégé, President Benjamin Mkapa, who cannot seem to look at a state enterprise without trying to privatise it, is bringing market discipline even to the health sector. Compounding the betrayal, his government this month appointed a Briton, David Tregoning, to overhaul the state hospital in Dar es Salaam, the commercial capital.

The revered Nyerere was not fond of business-minded westerners: in the early 1960s, he kicked them off their farms and nationalised multinationals' Tanzanian subsidiaries. Nowadays, though the government hates to admit it, Tanzania does what foreign donors say. It was at their insistence that Dr Tregoning was hired; donors will be paying for the hospital's face-lift, and are demanding some control over how their money is spent.

The hospital's history mirrors Tanzania's. A state-of-the-art facility when it was built in 1960, a year before independence from Britain, it decayed under Mr Nyerere's unaccountable socialist regime. Donated equipment festered in storerooms. Underpaid medical staff pinched drugs and supplies. Patients lay untended and unfed in overcrowded, filthy wards.

That should soon change. Dr Tregoning says the government has promised not to interfere as he launches a painful revolution. With $2m a year from the African Development Bank and the Illinois-based Abbott Laboratories Fund, Dr Tregoning will oversee the renovation of laboratories, the introduction of new training techniques, the establishment of an HIV management programme and the upgrading of technology across the hospital.

He also plans to cut waiting times, improve standards and raise morale. Fostering a culture of accountability will be tough. New department heads have already been selected. All staff will have to agree to performance reviews. Doctors will have to dedicate 70% of their time to the hospital rather than bunking off to treat their more lucrative private patients.

Patients will be means-tested; those who can afford to will have to pick up some of the tab. If this pilot scheme is a success, clinics across the country could receive similar treatment. Tanzania desperately needs better health care. Life expectancy is only 43 years and infant mortality is one of the highest in the world.

Health workers' unions are sure to oppose reform, as their members dislike change and fear job losses. If the government faces them down, it will augur well for future reforms in other areas.

Tanzania's recent record has been good. Under Nyerere, 13m peasants were forced from their homes into co-operative villages as part of a dismal experiment that the West funded to the tune of $10 billion. Forced to sell their produce to the government at a fraction of its value, Tanzanians became some of the world's poorest people. Since then, Mr Mkapa has freed farm prices and foreign exchange, spurring an impressive growth in agriculture.

He has also imposed fiscal discipline; inflation has fallen from 28% in 1995 to below 5%. Tanzanians are less likely to find cockroaches in their beer now that the state brewery has been sold off. The national telecoms firm and airline are also largely in private hands and foreign companies now manage the water and electricity utilities. As a reward, Tanzania was granted debt relief in 2001. Some economists now predict that the economy, which grew by an estimated 6.2% this year, might even become the biggest in East Africa in a few years, by overtaking Kenya's.

Still, it is not clear how much ordinary Tanzanians have benefited from this economic renaissance. Only a few have found jobs in the booming tourism and mining businesses; though booming, they are still small. There are not enough data to show whether poverty has fallen much since economic reforms began in the mid-1990s, though it is clear that primary school enrolment has improved; illiteracy among those aged over 15 has fallen from 44% in 1985 to 23% in 2002.

The IMF now wants Tanzania to trim its flabby civil service. With 45% of government spending covered by foreign aid, Mr Mkapa will find it hard to refuse. Business folk will be pleased, bureaucrats' families obviously not.

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Serbia

Something nasty in the Balkans

Dec 30th 2003 | BELGRADE
From The Economist print edition

AP

The revival of the extreme nationalists in Serbia bodes ill for the country—and perhaps for the whole region

THE scene in Belgrade's Republic Square the day after the Serbian elections on December 28th was telling. Some young people were handing out a booklet explaining citizens' rights, while their sound system played a song by Dido, an English singer, in which she warbles mournfully: “I won't put my hands up and surrender.” All this in front of a statue of Mihajlo Obrenovic, prince of one of Serbia's two royal households, whose bitter feuding plagued Serbia in the 19th century.

The election result was divided too. Some 2.1m people voted for more-or-less western-oriented parties; but almost 1.4m backed either the extreme nationalist Serbian Radical Party or the Socialist Party of Slobodan Milosevic, Yugoslavia's former president. The Radicals will be the largest party in parliament, with 81 seats. But, although they celebrated with champagne, there is no chance that they will be in government. Instead, and despite their loss of support, the same people who have run the country since Mr Milosevic was overthrown three years ago will try to cobble together another coalition.

Sighs of relief all round? Sadly not. The result was worse than expected. Polls had suggested that the Radicals might be the largest party, but none had predicted that they would get 27% of the vote. So is Serbia about to plunge the Balkans back into war? After all, Vojislav Seselj, the leader of the Radicals, boasted in 1991 that he intended to gouge out Croatian eyes with a rusty spoon. Since many of his party militiamen went on to commit similar deeds, he (like Mr Milosevic) is now in jail in The Hague, awaiting trial at the Yugoslav war-crimes tribunal. (It is not yet clear if either man will actually be nominated to a parliamentary seat by their parties.)

In practice, even if a hard core of nationalists wanted to reverse the Serbian losses in the Yugoslav wars, they have no means of doing so. Serbia's army is a shadow of what it was, and NATO-led troops are ensconced in Kosovo and Bosnia. Most Serbs are desperate for their country to get into the European Union, not go back to war.

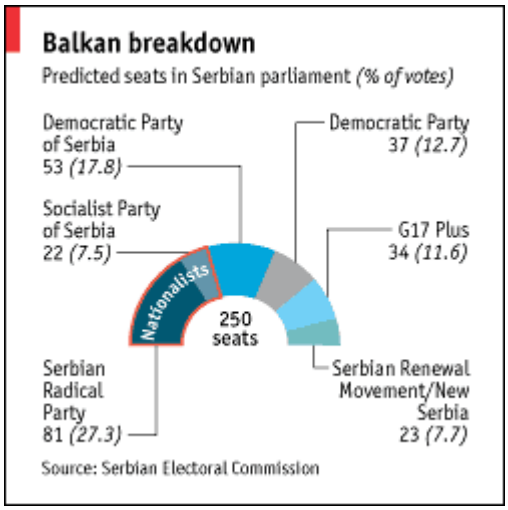
Tomislav Nikolic, who leads the Radicals in Mr Seselj's absence, said recently that, though the party remains committed to a Greater Serbia, including much of Croatia, if it came to power it would use only diplomatic means. Such nonsense suggests that much Radical support is just a protest vote. Nationalists they may be, but they include workers who have lost their jobs after privatisation, middle-class professionals who have ended on the economic scrap-heap, and Serbian refugees from Bosnia, Croatia

and Kosovo. One analyst, Aleksa Djilas, says the reality of Serbia is that “this is a defeated country and great ideological zeal is burned out.”

But another reality is that Serbia may now lurch from crisis to crisis and then back to the polls. Indeed, one reason why Mr Nikolic is so happy may be that he is glad not to be forming the next government. With no stable coalition in sight, many analysts foresee new elections within a year, in which some dispirited voters do not turn out, leading to an even bigger vote for the Radicals. In due course, the party could take power. Vladimir Goati, a political analyst, says the situation reminds him of the cycle of elections and weak governments in Germany in the 1920s and 1930s, in which the Nazis became ever stronger until they took over.

It may not happen like that, but the outlook is still bleak. The so-called democratic block consists of four parties. The largest is led by the man who ousted Mr Milosevic as president three years ago, Vojislav Kostunica. A conservative nationalist who is untainted by corruption scandals, he has sworn, as have leaders of the other three mainstream parties, not to work with the Radicals. So he must bargain with these other leaders to create a coalition or minority government. Easiest to link with will be G17 Plus, a party of liberal western-oriented reformers. Harder will be the Serbian Renewal Movement, which includes the monarchist Vuk Draskovic, who is notoriously unpredictable. Hardest of all will be the Democratic Party, which was led by Zoran Djindjic, Serbian prime minister until his assassination last March.

Besides personal enmities, the big problem is that these parties stand for such different things. All opposed Mr Milosevic in the end, but otherwise they have little in common. G17 Plus favours Serbian independence, and cares little for Kosovo. Mr Kostunica, by contrast, wants to strengthen the “state union” with Montenegro and will not willingly give up Kosovo. The Democrats are about to indulge in some internal bloodletting. If Boris Tadic, the party's informal leader, purges it of individuals widely believed to be linked to organised crime, then Mr Kostunica could work with him. If not, Mr Kostunica is unlikely to deal with his party at all.



The political horse-trading could now take a couple of months. Mr Kostunica does not, in fact, want to be prime minister. Privately he says that he wants to be Serbia's president; this job is vacant because successive elections to it have failed to pass the 50% threshold for voters' participation. Mr Tadic would like to remain as defence minister.

Whatever the results of the bargaining, Serbia is sure to lose more time. Since the death of Mr Djindjic, political and economic reforms have largely stalled. Barring an unlikely outbreak of harmony among leaders of the democratic block, the country will continue to drift. Braca Grubacic, a political analyst, comments: “It is a mess. Now we will go from one phase of instability to another and one phase of paralysis to another.”

After the fall of Mr Milosevic, western countries rushed to help Serbia reintegrate with the world. But, though much was done in the year following his fall, that process has now ground to a halt. The world cannot help Serbia if it will not help itself. A sad but small example stands in Torlak, a Belgrade suburb. The European Union has paid for a new building to house a new Serbian medicines standards agency. But since June it has stood empty, as parliament has not passed the legislation necessary to create the agency.

Without a stable government, Serbia will suffer. So, to a lesser extent, will other countries in the Balkans. Croatia has recently returned its old nationalist party to power, although the party has forsworn its earlier ambitions. Prospects for any of the Balkan countries to follow Slovenia into the EU soon have been dented by this week's election. Meanwhile, an economically moribund Serbia will continue to be a drag on development in its neighbours.

Worse may lie ahead. If the new government does not deliver ex-general Ratko Mladic, an indicted war-crimes suspect, to The Hague by the end of March, the Americans have threatened to cut off aid. With little to gain, no Serbian politician will grasp the nettle of Kosovo, Serbia's Albanian-majority province, now under UN administration. And without progress towards independence, more Albanians may be tempted to revert to violence there. Dealing with Montenegro is also likely to waste time, if its pro-

independence government plays off Serbian supporters of a divorce between the two republics against those in favour of a closer union.

Those who heard Dido singing in Republic Square might then wonder: who is not surrendering? Embittered, western-hating nationalists—or those who believe that Serbia could, one day, have a prosperous, western future?

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Ireland's EU presidency

A mess of pottage

Dec 30th 2003 | DUBLIN
From The Economist print edition

An unexpected cloud over the new EU presidency

THIS week Ireland took over the European Union's quirky six-monthly rotating presidency. It is a tough moment at home. Bertie Ahern's centre-right coalition government is deeply unpopular with voters, and it may face a sharp reversal in local and European elections next June. But after the breakdown of negotiations over the EU's new constitutional treaty at the Brussels summit earlier this month, its task in Europe looks more formidable still.

In Brussels it is often said that small countries run the best presidencies (one provision of the new constitution would, in fact, abolish the six-monthly rotating presidency altogether). There has even been some talk of harnessing Mr Ahern's great negotiating experience, gleaned over years of discussing Northern Ireland. Yet the wily Mr Ahern may still prove unable to revive the stalled constitutional negotiations before the end of June.

He has much else to do too. The set-piece event will be the arrival of ten new member countries in May. But the Irish must also take on the delicate task of finding a new president of the European Commission to succeed the lacklustre Romano Prodi, whose term expires this year. The next few months will also see the start of highly contentious arguments over the EU's next six-year budget—with Ireland's position as a net beneficiary under threat.

It seems odd, then, that the Irish government should have chosen this moment in the European spotlight to pick a fight with its own civil servants. But Mr Ahern has done just that, provoking much ire among the grander Dublin-based mandarins. The bone of contention is the plan announced in this month's budget by the finance minister, Charlie McCreevy, to shift eight government departments (over half the total) and some 10,300 civil servants out of the capital by 2007.

The relocation plan was greeted by some as a shrewd political ploy. It diverted attention from a minimalist budget that had left most taxpayers worse off. Decentralisation has also given the government's unhappy backbenchers some reason to cheer, for it offers the promise of more jobs in their constituencies. As many as 25 of Ireland's 26 counties hope to benefit. In this way, it was hoped, the decentralisation plan might serve as a useful weapon in the electoral battles in June.

Not so pleased, however, were the victims: the top civil servants, most of whom are deeply unenthusiastic about moving to the provinces. The department heads were told of the decentralisation plan only 48 hours ahead of its announcement. Although job relocation is voluntary, ministers are strongly advising their staff to accept transfer offers. One department is to relocate to Knock airport, in the sparsely populated west. Another, dealing with marine matters, will go to Cavan, a landlocked (if lake-strewn) northern county.

The government justifies its relocation plan on the grounds of balanced regional development. Over a quarter of the country's 4m people live in the congested greater Dublin area. Yet ministers are having some trouble explaining how they chose the 53 lucky recipient locations. The opposition leader, Enda Kenny, has pointed out that five of the eight departments moving are going to places either in or close to ministers' constituencies.

The government has given its employees an offer it hopes they cannot refuse. But some with working spouses or young families may still say “No, minister”. Nobody knows how many, for the government unwisely failed to survey its staff before announcing its plans. One wonders now how keen some of them will be to make the EU presidency a success.

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Charlemagne

Of wars and weighted votes

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The history and future of the German-Polish relationship

THE European Union was founded in reaction to the second world war. In many ways, its greatest triumph is that European leaders now spend their time arguing about fish quotas, not disputed frontiers. Yet occasionally memories of war bubble back to the surface. The recent deadlocked European Union summit in Brussels was just such an occasion.

That the central confrontation came between Germany and Poland was bound to stir up memories. But despite the tension, the EU could still claim to be exercising its civilising influence. This was not, after all, an argument about national survival. Rather it was a dispute between two democratic governments over voting rights, one to be settled by multilateral negotiations, not force of arms. The Germans want EU votes to reflect population size, giving them twice as much weight as the Poles. The Poles are leading the defence of the current system, which gives them almost as much clout as the Germans.

Poles usually make a point of not mentioning the war explicitly in any dealings with Germany. But they barely need to. It is implicit in their insistence that they will not be intimidated by demands from their bigger and more powerful neighbour. Asked by the BBC whether he was worried that Germany might make his country suffer for its obduracy, President Alexander Kwasniewski of Poland exploded that his country was not afraid of suffering: Polish history was about suffering.

These days, the German approach to Poland seems slightly less weighed down by memories of the war. This is new. In the tortuous negotiations over the enlargement of the EU, which took up much of the 1990s, Germany championed the Polish cause, making much of its need for an historic reconciliation with its eastern neighbour. When other countries mused that Poland might not be ready to join the first wave of new entrants, the Germans were always the first to insist that any EU expansion without Poland was not worth having.

Now that Poland's entry is secure, though, the Germans seem to feel that past debts have been settled in full. Indeed the new German refrain is that the Poles are being unreasonable and arrogant in blocking the adoption of a new constitution, even before they are officially inside the Union's pearly gates. (Poland, along with nine other countries, mostly from central and eastern Europe, will formally join the EU only in May, but all have been included in the constitutional debate as they will be full members when any new constitution comes into force.) Günter Verheugen, a European commissioner from Germany who handled the enlargement negotiations, recently fumed to the European Parliament that he now almost regrets all the efforts that he made on Poland's behalf. In the corridors of the Brussels summit one German diplomat was even heard to say, without apparent irony: “How can the Poles behave like this, after everything we have done for them?”

It is not just the Poles who are acutely aware of the weight of history. There was a distinct whiff of 1939 and all that in the reaction of British Conservatives to the way the plucky Poles had scuppered the EU constitution and “stood up to the Germans”. Perhaps the most tasteless comment in the summit's corridors came from a Swedish diplomat, who remarked: “Maybe the Poles could claim equal voting weight with Germany, by counting all the Poles that the Germans killed in the war.”

Not terribly funny, perhaps—but not entirely frivolous, either. Consider the reconciliation between France and Germany on which the EU was founded. The principle of absolute equality between aggressor and victim was clearly fundamental to the bargain. For over a decade after German reunification had boosted that country's population well beyond France's, the French continued to insist that the two should retain precisely equal voting weights. France formally abandoned this position only in 2002. “In the end you have to accommodate yourself to reality,” explains a French diplomat. “The Poles will have to do the

same, eventually.”

Think national, speak Europe

The closeness of today's Franco-German relationship is often cited as a model for the future of German-Polish relations. But, whereas France and Germany have now had 50 years of working together in which to overcome old fears and hatreds, for most of that time Poland was locked away behind the Iron Curtain. The French and German leaderships like to argue that, partly as a result, Polish politicians are still fixated on old ideas of national sovereignty, while their two countries have moved on to a new sort of relationship, based on a fresh way of thinking that transcends such old categories as the “national interest” or “national security”.

To make the point that Germany is thinking of European rather than national interests in pressing for the new constitution, German diplomats are now recounting a key moment in the Brussels summit. Searching for a compromise, Silvio Berlusconi, the Italian prime minister who was chairing the talks, suggested to Gerhard Schröder, the German chancellor, that rather than moving to a voting system linked to population, Germany could simply have more votes within the current system: perhaps three more votes, giving Germany 32 votes, against 29 each for France, Britain and Italy, and 27 each for Poland and Spain. Mr Schröder dismissed this angrily: the point, he said, was not to increase German power, but to give the EU a more rational system of government.

Maybe so. But then a population-based voting system is even more advantageous to Germany. And, as one distinguished German chancellor, Bismarck, once put it: “I have always found the word Europe in the mouth of those politicians who were demanding from other powers something that they did not dare demand in their own name.”

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Gun crime

You're history

Dec 30th 2003
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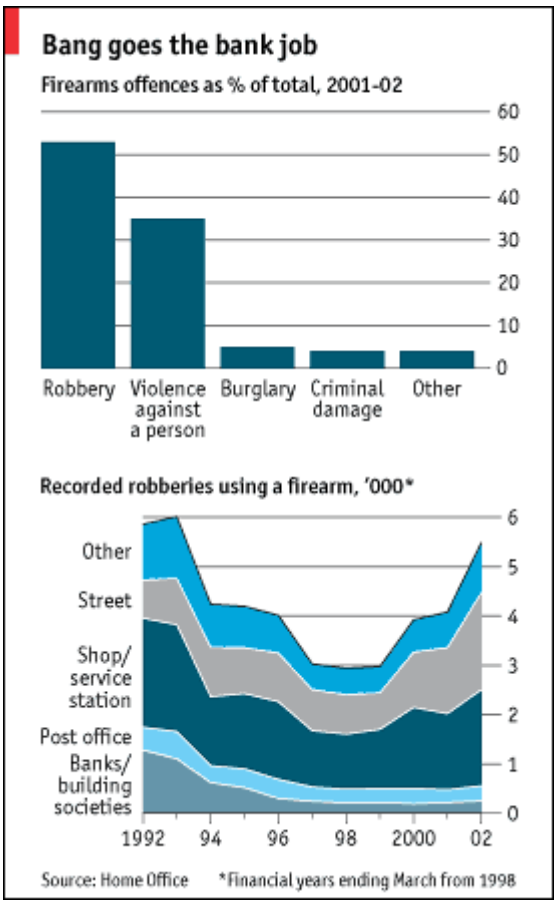
The Americanisation of armed robbery

NEWS that police in Leeds are looking for an American in their search for the man who murdered one of their colleagues on Boxing Day fits with the way that gun crime has changed over the past decade. The pattern of offences involving firearms looks more and more like that in America: random, careless shootings have replaced the carefully-planned bank robberies of old.

“Standards are down,” asserts Terry Smith, who carried out a string of security van robberies in 1980s London. “Most robbers now get caught up in drugs, and they don't plan properly. The professionalism has gone.”

Old crooks nearly always resent upstarts, but those who used to make a living out of armed robbery have particular reason to be bitter. Tracking devices, hidden cameras and improvements in forensic science have hardened banks, vans and other traditionally lucrative targets so much that pulling on a balaclava scarcely seems worthwhile. This year, England and Wales saw just 250 bank and building society heists—down from 1,400 in 1991. These days, most armed robberies take place on the street (where stick-ups have more than doubled in the past four years) and in shops (up 26% in 2003).

In this new environment, old tools and techniques are of little use. Sawn-off shotguns are handy for robbing banks, mostly for reasons of presentation: they make a terrific noise when fired at the ceiling or floor, and are menacing enough to project a threat through bullet-proof glass. They are less useful for robbing today's “soft” targets, though, so they have mostly been discarded. Sawn-off shotguns were used in just 201 robberies last year—a third the figure of a decade ago—while almost 3,841 jobs were done with handguns.



Roger Matthews, professor of criminology at Middlesex University, says that armed robbery is becoming Americanised, both in the sense that Britain is moving towards late-night convenience store robberies, and also in the sense that anyone can do it. The rise of unskilled robbery—junkies with guns and no previous experience—is bad news for shop workers, who are less well trained in dealing with guns than are bank tellers; it is also bad for the police, who tend to find ill-thought-out crimes harder to solve than planned ones.

For the most part, old dogs disdain the new tricks, which they regard as the preserve of drug-addled thugs. Officers in the Flying Squad—the arm of the London Metropolitan Police that deals with armed robbery—say that professional stick-up men tend to follow defined tracks. Betting shop specialists will rarely rob post offices, for example. Mr Smith claims, with a touch of pride, that he never robbed a shop, nor even a building society.

With their chosen targets now out of reach, most of the men who terrorised Britain's cities in the 1980s have simply left the business. But not all have gone clean. To paraphrase Willie Sutton, a legendary American robber, people used to hold up banks because that's where the money was. These days it is in the international drugs trade. That is where many of the old-timers have gone.

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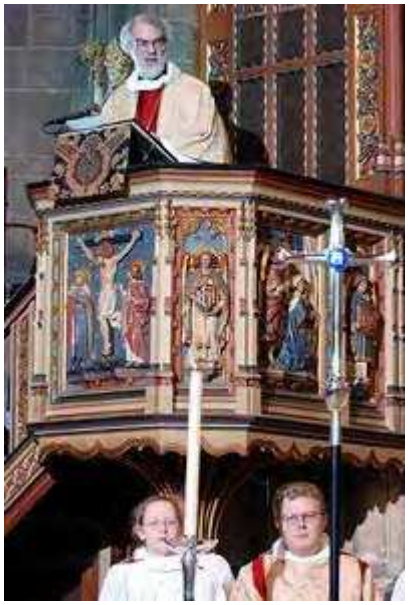
Priests and politics

Goodwill to all, except Tony Blair

Dec 30th 2003
From The Economist print edition

The bishops don't like the way the war on terrorism is being fought



YOU can see why Tony Blair chose to take his Christmas holiday at the Egyptian resort of Sharm el-Sheik. For one thing, the weather is reliably hot and sunny. For another, it is a long way from the Church of England.

The prime minister might have hoped that, at Christmas of all times, the bishops might cut him a little slack. But today's media-savvy clerics know that if they want to get their message across, Christmas is there to be leveraged.

To that end, the Archbishop of Canterbury, Rowan Williams (above), took the unusual step of briefing a newspaper on what was purported to be the theme of his Christmas Day sermon. He attacked Britain's policy on the detention of suspected Muslim terrorists. He was concerned both for the nine British detainees at Guantánamo Bay and for a further 14 characters banged up closer to home in British prisons. “If we want to persuade moderate Muslims to sign up to toleration and pluralism of the right kind,” he said, “anything that gives the impression that we are targeting Muslims is problematic.”

The home secretary, David Blunkett, was unimpressed. “I am not interested in the religious commitment...of those concerned,” he said. “I am interested in whether they are terrorists. We are holding them because they pose a major threat here and across the world.”

In the event, Dr Williams, having drawn Mr Blunkett's fire, left out specific reference to the detainees in his sermon, although he expressed sympathy with French Muslims facing a ban on the wearing of headscarves in schools. It was an example, he said, of the intolerance of the secular world when confronted by outward displays of religious faith.

Taken on its own, the primate's sermon was unexceptionable. But heard in the context of the pre-delivery spin it was clear that Dr Williams believes that the war on terrorism is stoking religious hatred.

It is equally clear that the Church has not forgiven Mr Blair for leading Britain into war in the first place. Taking advantage of the post-Christmas torpor, the second and fourth most senior clergymen in the Church went on the attack. The Bishop of Durham, Tom Wright, declared in a newspaper interview: “For Bush and Blair to go into Iraq together was like a bunch of white vigilantes going into Brixton to stop the drug-dealing. This is not to deny there's a problem to be sorted, just that they are not credible people to deal with it.”

In another newspaper, the Archbishop of York, David Hope, rebuked Mr Blair for arrogantly failing to heed the views of those who opposed the war. The message of the Incarnation, he said, was that success was ultimately achieved through humility rather than worldly power. “There is a higher authority before whom one day we shall all have to give an account.”

How much should this worry Mr Blair? He says he is ready “to meet [his] maker”. But someone of the prime minister's strong religious conviction is bound to be affected by criticism from such a quarter, even if he thinks it mistaken.

Meanwhile, perhaps as soon as January 12th, Mr Blair must face a reckoning of a different kind: Lord

Hutton's report. If the law lord is as harsh in his judgment as the bishops, Mr Blair's holiday will have done him only fleeting good.

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Equitable Life and BCCI

Make Nanny pay

Dec 30th 2003
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The compensation culture goes to Whitehall

THE idea goes back at least to the South Sea Bubble of 1720. But the notion that the state should recompense unlucky, unwise or flatly foolish investors and savers is getting new life. The unhappy folk who relied on Equitable Life for their pensions are now calling for government compensation. And in mid-January a court will tackle a lawsuit brought by the liquidators of BCCI, a bank that crashed 12 years ago, in the hope of getting £1 billion ($1.75 billion) from the Bank of England.

Both cases rest on the notion that the state-appointed regulators fell down on the job, so the state must pay. Must it? It did so over the Bubble, and rightly: this was a state-backed fraud, says its latest historian*, and many of the ministers and MPs who put through the legislation were bribed. The promoters, bizarrely, would pay the state for the privilege of taking on its national debt, worth a huge £30m. They would then offer holders of the paper South Sea shares, whose value would infallibly soar. As it did—so long as the crooks could manipulate it.

Inevitably, the Bubble burst, and Robert Walpole's government saved its face and investors' pockets by forgoing the £7½m it had been promised. But today's regulators have a stronger case.

The Bank of England, whose job it was to oversee the British activities of Luxembourg-based BCCI, was found wanting by an inquiry at the time. But the liquidators, Deloitte, will have to prove the Bank was not just careless but reckless, or worse, to win their lawsuit.

As for Equitable Life, the parliamentary ombudsman found its latest regulator, the Financial Services Authority, not to blame. That does not exonerate earlier regulators, first the Department of Trade and Industry, later the Treasury. But this debacle was not due to fraud. Equitable Life had guaranteed over-large pensions to some 1990s savers. When it tried to get round this, a legal decision of the House of Lords belatedly stopped it. But even a compromise deal proved unaffordable unless it slimmed the unguaranteed future pensions of other savers.

It did so, and they are sore. But slimming is not abolition, and Equitable Life is not bust. Why, asks Whitehall, should taxpayers compensate some savers who just chose the wrong pensions provider? Because the regulators should have spotted it was a badly wrong 'un long before they did, says these savers' action group. And there is a precedent. In the 1980s investors lost £191m in Barlow Clowes, a Gibraltar-based firm promising huge returns on gilt-edged stock. No one should have believed it, but 18,000 did; and the British government, whose supervision had indeed been lax, paid them £150m in “ex gratia” compensation.

* “The Secret History of the South Sea Bubble”, by Malcolm Balen. Fourth Estate, £17.99

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Fishing industry

Heavy seas

Dec 30th 2003 | EDINBURGH
From The Economist print edition

Why the cost of fishing subsidies is rocketing as the industry disappears

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THE deal on fishing quotas hammered out between European fisheries ministers just before Christmas was stringent enough to make fishermen angry but not to solve the problem of declining fish stocks. Nor will it resolve the paradox of fishing subsidies: while the number of fishermen working is falling, the amount of British taxpayers' money being spent on them is going up.

Fishing is disappearing. The shoals of white fish such as cod and haddock caught by British boats shrank from 457,000 tonnes in 1998 to 243,000 tonnes in 2002. The value of the British catch has fallen from about £690m ($1.1 billion) in 1994 to £550m in 2002. Boats have dwindled from 10,300 to 7,000 and the number of fishermen from 20,700 to 12,750.

Yet, while in 2003 supporting fishing cost British taxpayers £110m, in 2004 the bill is liable to be about £165m ($290m). That amounts to about £12,950 per fisherman, rather more than the £9,500 per farm worker that farming subsidies cost.

That's partly because the government is trying to reduce the number of fishermen by buying boats and licences: £56m is being spent on bribing skippers to quit. But it is also because bureaucrats' numbers do not fall alongside those of fishermen. Britain has four fisheries ministers and about 950 bureaucrats and researchers for an industry producing 0.06% of GDP. And even though the number of boats is still falling, the government still has to pay to keep an eye on the state of fish stocks and to police the fishermen to make sure they don't break the rules.

Not that it has much effect. Illegal fishing, along with the warming of the North Sea, is causing the fish to disappear. Twice as much illegal as legal cod may have been caught in 2001.

According to the Downing Street strategy unit, if the North Sea gets colder (a big if) and the cod return, catches will, at best, expand by about 30% by 2013. More likely, they will shrink by a further 20%. Fishermen seem to agree: the Scottish Fishermen's Federation says that a good many boats cannot put to sea because crewmen have gone to better-paid offshore oil work and skippers are discouraging sons from taking on the family boat.

Given that there are plenty of alternative jobs in the areas where fishing is concentrated, the social cost of a dying trade need not be too high. And there will be something to catch: a warmer North Sea means more prawns and sole. Nor have the fishermen's troubles had much impact on consumers. The price of cod has risen, but thanks to salmon farming and imports, Britons are eating 10% more fish than they were ten years ago.

Now cod farming is about to take off. The Norwegians claim that by 2013 their farms will be churning out five times more cod than the British fleet now catches. Fish farming is a lot cheaper to police as well.

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Stress and work

It's an ill wind

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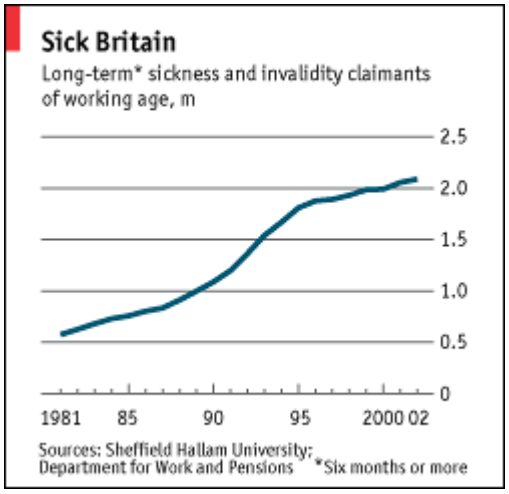
From The Economist print edition

Why so many people are off sick while the economy is healthy

FEELING a bit stressed? Pop along to the doctor and explain how you can't sleep, can't eat, don't want to go out and, by the way, a nasty boss at work is making your life hell. Stress, increasingly given as a reason for being off work, is conveniently hard to diagnose. A recent survey of 67 doctors by Aberdeen University researchers, published in the *British Medical Journal*, found that most tended to hand out sick notes when asked.

The fact that family doctors, whose main job is to cure illness, have a secondary job of being gatekeepers to the benefit system, goes a long way to explain an odd thing about the British workforce. The employment rate is at a record 74.7% and unemployment is down to 5%, the lowest level since 1974. But record numbers of people—5.9m—are off sick.



About 3m of the workless sick claim some sickness or disability benefit, mostly incapacity benefit (IB), generally available if for more than four days someone is too sick to work. The government says that the number getting this benefit is falling, but that is only because, since 1995, pensioners have not been allowed to claim it. Excluding pensioners and people off sick for less than six months, the numbers claiming IB have risen inexorably to more than 2m (see chart). In parts of south Wales, over 25% of working age men claim sickness benefit; in London's commuter belt, by contrast, fewer than 5% do.

The government has tried to cut the IB bill, now £6.9 billion a year, by banning people on unemployment benefit from moving on to IB. It has also brought in more stringent tests for people on IB for more than six months. But numbers are still going up because, although the numbers of new IB claimants are falling, fewer people are coming off IB.

Industrial injuries, of the sort that used to afflict workers in heavy industry, are on their way out. More and more, people are off for mental or behavioural disorders such as depression: numbers in those categories rose between 1995 and 2003 from 445,000 to 846,000. That is partly because mental illness is no longer considered shameful. Cary Cooper, professor of organisational psychology and health at Lancaster University, also blames economic insecurity and geographical mobility. Moving to find work takes people away from neighbours and relatives who can help when times are hard. Americans, he says, are used to this. Britons aren't. They visit their doctors and take to their beds.

Stress is hard to diagnose. Doctors have to get patients to list their symptoms, describe their behaviour, make a diagnosis and work out whether the root of the problem is at work, home, or in something as vague as fear of crime, all within ten minutes, says Mary Church, a Lanarkshire doctor. “We just don't have the time to work through people's problems, so they are likely to get some quiet sympathy and a sick note.”

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The crisis at Parmalat

Milking lessons

Dec 30th 2003
From The Economist print edition

AP

It seems that a massive fraud was behind the collapse of Italy's Parmalat. But how did it happen and who benefited?

WHEN Enrico Bondi, a turnaround expert, arrived at Parmalat in mid-December, he thought his job was merely to help restructure the finances of Italy's biggest dairy group. Within days, however, events moved faster than even the shrewd Mr Bondi can have predicted. First, Calisto Tanzi, Parmalat's founder and boss (pictured above) was ousted in a brutal show of strength by the company's main banks. Then Mr Bondi began to uncover the truth behind Parmalat's strange balance sheet, and a bad story got much worse.

The immediate problem at the company had been one of short-term liquidity. As a regular heavy user of the bond markets, Parmalat had been criticised as being inefficient for its habit of carrying large debts that were supposedly offset by big cash holdings. Suddenly in December, it struggled to redeem a €150m ($180m) eurobond, despite apparently having already bought back much of the issue. Financial markets wondered why the redemption was a problem for a group with more than €4 billion of reported cash and short-term assets. Investors then panicked when Parmalat admitted that it had been unable to release almost €500m trapped in a mutual fund based in the Cayman Islands.

That was when Mr Bondi arrived. He quickly discovered that Parmalat had overseen a huge and long-running deception, perhaps dating back nearly a decade. The Tanzi family lost control of the company as forensic accountants got down to work. Mr Tanzi was arrested for questioning on December 27th. On December 29th, Parmalat's by now almost worthless shares were suspended indefinitely on the Milan stock exchange. A full-scale judicial inquiry is under way, with 20 people under investigation. And America's Securities and Exchange Commission accused Parmalat of misleading bond investors in “one of the largest and most brazen corporate financial frauds in history.”

Colleagues of Mr Tanzi, including a former finance director, have alleged, according to investigating magistrates, that he personally siphoned up to €800m from Parmalat. Mr Tanzi's lawyer denies that any money has “disappeared”. Mr Tanzi did have a penchant for buying football clubs, but his lifestyle was reportedly not especially lavish. Even if this specific allegation against him turns out to be true, it would not explain the billions more that have gone missing.

So where were Parmalat's auditors during all of this? Grant Thornton was the long-time auditor of Parmalat itself and had remained auditor of Bonlat, a Parmalat subsidiary. Deloitte & Touche, Parmalat's main auditor since 1999, insists that it abided by Italian accounting standards and is co-operating fully with investigators. For its part, Grant Thornton has claimed that a letter from Bank of America vouching for €4 billion of cash in Bonlat was a forgery good enough to fool them into approving accounts that were fake.

But there were numerous such documents. Indeed, investigating magistrates claim that four times a year Parmalat was operating a crude, but effective, system for forging documents that purported to show big cash balances within Bonlat. The balance sheets of the subsidiaries were simply adjusted to make sense of the group's overall financial position, and then reported to the centre as audited numbers.

Grant Thornton claims that it too was the “victim” of a fraud. But it seems either to have been too close to its client or to have been incompetent. For example, investigating magistrates say that, according to former finance officials with Parmalat, the auditor used Parmalat's internal mail to request financial information, rather than dealing with banks or other parties directly. If so, this would mean that vital transactions were not scrutinised outside a closed loop of communications.

Among other things, Mr Bondi wants to know where the missing money has gone—assuming it ever existed. The sooner he can separate invented assets from real ones, the sooner he can reassure investors that there will be money to recover from the mess. Shareholders seem set to lose everything and there will be painful negotiations with the holders of Parmalat's numerous bond issues. However, Mr Bondi probably has just enough breathing room in which to pare Parmalat back to a viable operating business with a manageable financial structure and to save as many of the firm's 36,000 jobs as possible.

Using new laws rushed through by the government, Mr Bondi is now acting as the sole administrator of Parmalat. He has 180 days to try to salvage what he can. The new law allows Parmalat to use its working capital to pay suppliers, and will also make it likely that its banks will give it more short-term capital within a few weeks.

It remains possible that the task will prove too much, even for the talented Mr Bondi. So far, there has been no good news to offset the steady flow of bad developments at Parmalat. Outsiders are still guessing at the size of the black hole in the firm's accounts—is it €10 billion? €12 billion? More? One likely scenario is that Mr Bondi will break Parmalat into pieces, selling what he can and trying to retain a core milk business. Whether he can close the funding gap, however, is a big question.

If he is to have a chance, Mr Bondi needs to know quickly, and in detail, how the fraud was committed. Untangling such schemes is never easy, especially when there are hundreds of interwoven subsidiaries and shell companies, not to mention tax havens and offshore banks, involved. Mr Bondi has done the sensible thing and looked first for the big sums, only to realise the scale of his challenge. Now he must go after multiple, smaller amounts. It will take time, perhaps several months.

Until there is more precise information, most people can only guess at how such a large fraud can have been constructed. But the broad outlines have begun to emerge. On the face of it, a financial-holding company seems to have been used to grab cash from the operating company, before losing that money through the silly use of derivatives and other speculative financial dealings. As the losses mounted, instead of coming clean it seems that the stakes were raised in a desperate and ultimately futile effort to keep the scam going. If such a picture is broadly accurate, then Parmalat will look much like other corporate scandals. Until then, the worry is that fresh horrors may yet emerge.

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Digital imaging

Has Kodak missed the moment?

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Not for the first time, Kodak is trying to find a future beyond film

"KODAK is changing the picture," declared the boss of the world's leading photographic company with a strategy to "drive digital imaging to new markets." With film-less digital cameras one of the hottest-selling consumer items in 2003, few could argue with that—except that it was announced by George Fisher eight years ago. Now it is his successor, Daniel Carp, who took over as chief executive in 2000, who is trying to secure a digital future for Kodak. The risk is that after more than 100 years of bringing the wonders of photography to millions, Kodak will again make a half-hearted transition. If the firm stumbles this time, a break-up beckons.

In some areas, Kodak has delivered on Mr Fisher's pledge: only Sony rivals its EasyShare brand of digital cameras in America (see chart). Kodak is also strong in some other digital areas. But the new technology has thrown open the market to rivals in related industries—among them, Sony in consumer electronics, Hewlett Packard in computers, Seiko Epson in printers, and Nokia in mobile phones (which now take digital pictures too).

Smile for the cameras
US digital camera market, Q3 2003

	Shipments '000	Market share, %	Growth from Q3 2002, %
Sony	800	22.4	11.1
Kodak	625	17.5	66.7
Canon	550	15.4	83.3
Olympus	414	11.6	13.8
Nikon	340	9.5	58.1
FujiFilm	270	7.5	-3.6
HP	245	6.8	113.0
Other	334	9.3	-85.6
Total	**3,578**	**100**	**39.2**

Source: International Data Corporation

As prices fall and performance improves, even many professional photographers are going digital. This rapid uptake surprised the Rochester, New York, company. When photography was a matter of exposing rolls of film, Kodak was primarily in the chemicals business: making films, darkroom agents and light-sensitive papers. Now this part of its business is shrinking more quickly than expected.

In September 2003, Mr Carp announced what he called the "biggest turning point" in Kodak's history. There would, he said, be no more big investments in traditional film. He also slashed the company's dividend by 72% to finance a $3 billion investment and acquisitions drive. This is intended to broaden Kodak into three imaging businesses: consumer, commercial and health. By 2010, Mr Carp hopes for revenues of $20 billion. In 2002, some 70% of the company's revenues came from its traditional film products, the remainder from digital. By 2006, the plan is for digital revenues to account for 60%.

That will take some doing. In the nine months to September 30th 2003, Kodak's net revenues rose by only 1.5% (to $9.5 billion), and despite the first profits from its digital cameras, net profits fell by 63% to $246m. Over the next three years, Kodak expects film sales to fall by 10% or more every year in America and Europe, and by up to 20% a year in Japan.

Companies that find their business model threatened by rapid technological change often fail to adapt successfully. Kodak is trying to capitalise on opportunities created by digital photography, such as designing easier-to-use equipment. It has also recruited executives with experience at firms such as GE, HP and Lexmark.

In recent months, Kodak has spent more than $300m on acquisitions, including the $250m purchase from Israel's Scitex of an Ohio-based digital-printing business—an operation, ironically, that Kodak sold to Scitex in 1993 for $70m. As it makes more purchases, will Kodak get carried away and pay prices which are too high? "The top management team is desperate to replace a cash flow that everyone knows will evaporate," says one knowledgeable observer. "Desperation has a way of clouding managers' judgment."

Kodak officials naturally disagree. Investments will be selective and disciplined, says a spokesman. “Digital is far less capital-intensive than film,” he adds. Nevertheless, worries remain. Standard & Poor's, a debt-rating service, is concerned that Kodak's pace of acquisitions could outstrip its ability to generate cash.

Managing the traditional film business for cash is how Kodak plans to fund much of its strategy. It has described emerging markets as its “reservoir of growth”. In China, for instance, it expects film sales to grow by 7-9% a year until 2006. In India, an annual growth rate of 6-8% is expected. In China, it has purchased a 20% stake in Lucky Film, the country's biggest maker of camera film, for $100m.

This latter deal seems to be the sort of investment in its traditional business which Kodak said would stop. It suggests that the company may still be hopelessly hooked on film. While picture-taking is bound to grow as emerging markets become more affluent, there is no guarantee that film-based products will grow in line with that demand. New consumers in emerging economies often skip a generation of technology—from no-phone to cell-phone, for example, with their first leap into telecoms. As digital photography becomes cheaper and easier, many Chinese and Indians will bypass film and go straight to digital equipment. If that is coupled with cut-throat pricing in both developed and developing markets, Kodak could quickly find itself in trouble.

Some Kodak shareholders, who have witnessed the value of their stock trade at lows not seen for two decades, have been infuriated by Mr Carp's plans for acquisitions and growth. It would be much safer, they argue, to invest in reliable niches, such as medical imaging, even though that could mean falling revenues and a smaller company. At meetings with shareholders, Mr Carp has sought to calm their fears and persuade them that his strategy for Kodak will deliver the greatest shareholder value.

However, there is one shareholder who may not be persuadable. Carl Icahn, a billionaire who found fame as a corporate raider in the 1980s, has been given regulatory clearance to buy up to $500m-worth of Kodak shares. Mr Icahn has said merely that he thinks Kodak's shares are cheap and that he is taking a long-term view. People should not, he says, jump to the conclusion that he plans to orchestrate a break-up of the company. But if Mr Carp's digital strategy starts to unravel, Mr Icahn will be well positioned to do just that.

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America's motor industry

The year of the car

Dec 30th 2003 | DETROIT
From The Economist print edition

Detroit's Big Three are serious about making cars again

Get article background

JIM PADILLA, president of Ford's North American operations, wants 2004 to be “the year of the car”. When the Detroit motor show opens on January 4th, Ford will roll out an array of new passenger cars, such as the 500 to replace its ageing Taurus. Not for years has Ford put so much emphasis on saloons rather than on the pick-ups, sport-utility vehicles and minivans in the light-truck segment that dominates American sales. It is not alone. Amongst Chrysler's new cars is the 300C, its first rear-wheel-drive saloon in more than 20 years, and the Magnum, its first estate car since 1984. At General Motors (GM), it is much the same story.

This may seem odd. The booming light-truck segment accounts for over half the sales of America's Big Three carmakers; for Chrysler it is two-thirds. For the past decade this part of the market has provided all Detroit's profits, while cars have lost money, outclassed by Japanese rivals. So why shift resources? Because, as David Cole, chairman of the Centre for Automotive Research, in Ann Arbor, Michigan, puts it, “there is no sanctuary any more”.

Over the past 20 years the American market has split. The Japanese have dominated cars with good, economical models, while the retreating Big Three concentrated on the light-truck segment. But now the Japanese are advancing on Detroit's last redoubt. Toyota offers more sport-utility models than Ford, while Nissan could do well with its first big pick-up, the Titan. Even Ford's new version of its F-150 truck (America's best-selling vehicle) is being sold at discounts of up to $1,000.

To survive, Detroit's manufacturers have to retaliate on all fronts. This means improving their car ranges: upgrading them from basic, boring vehicles, bought mostly by rental companies at knock-down prices, to attractive models that can be sold profitably. Over the past two years, American carmakers have tried to stem their loss of market share with discounts. This worked, at least in keeping overall sales buoyant. Throughout America's economic slowdown, sales remained at about 90% of their peak.

Detroit officials, such as John Devine, GM's chief financial officer, insist that the discounts are money well-spent, largely because carmakers do not have much scope for saving money by reducing output and so costs. Restrictive union deals with the Big Three have limited lay-offs. With American car firms struggling, that is beginning to change. Following last summer's deal with the United Auto Workers Union (UAW), the Detroit carmakers will close at least six assembly and component plants and sell off other operations. Faced with a bleak assessment of the future, the union agreed to try to narrow the productivity gap with the mostly non-union factories opened in America's southern states by European and Japanese manufacturers. Such factories will soon have the capacity to produce more than 25% of the vehicles sold in North America. However, the UAW refused to budge on health care, now one of the biggest single items in the cost of a Detroit car. That led Ford's chairman, Bill Ford, to call for a national health-care programme.

On top of the health-care costs there are the carmakers' huge unfunded pensions. After 20 years of shedding workers, the Big Three now have far more retirees than active employees. At GM, the ratio is 2.4:1. At the start of 2003, the stockmarket downturn left the company with a pension-fund deficit of $19.3 billion. Many observers feared that GM would have to scrub new-product plans to raise cash. However, the company (unexpectedly) almost closed the gap by the end of 2003, helped by a successful bond issue and the pending sale of its DirecTV business. GM's pension expenses are expected to fall by at least $1 billion this year.

Nonetheless, the months to come will be hard—especially for Ford and Chrysler, both struggling to keep turnaround plans on track. Tough selling conditions “went far beyond our expectations”, concedes Chrysler's chief executive, Dieter Zetsche. Both manufacturers desperately need a reprieve from price-cutting, although GM seems unlikely to co-operate.

Both companies hope to draw customers with new products, rather than with discounts. Ford is setting sales records with its updated F-150, but Chrysler is finding success more elusive. Critics contend that this reflects poorly on Mr Zetsche's plan to move the company upmarket. It seemed a sound strategy on paper as the firm's commodity brands—Chrysler, Dodge and Jeep—are caught up in the discounting wars. But buyers largely rejected the fancy $40,000 versions of Chrysler's new Pacifica. Sales only began to take off when the company switched to lower-priced versions—and gave bigger discounts.

Ford and GM emerged from 2003 in slightly better shape than many sceptics expected. Ford, for instance, had by the last quarter, turned its European and Latin American businesses into profit again, and was making money for the first time at its Premier Automotive Group (containing brands such as Jaguar and Land Rover) as well as in its burgeoning East Asian business. Its underlying 2003 profits will exceed initial expectations.

But now that the Japanese, South Koreans and Germans have unleashed an assault on the light-truck market, Detroit has to respond aggressively. Do the Big Three have what it takes to fight back this time? Their new cars must win customers and do so profitably. This looks like the only way Detroit can stay on the road.

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Face value

Queen of the online flea market

Dec 30th 2003
From The Economist print edition

Reuters

Can Meg Whitman keep competitors out of eBay's territory?

Get article background

SOME unwanted Christmas presents are already appearing for sale on eBay. The online-auction market for collectors, hobbyists and sellers of second-hand goods has had a frantic holiday season, and the post-Christmas period is expected to be just as lively. Meg Whitman, chief executive of eBay since 1998, still has no idea how big her baby could become. Some $20 billion-worth of goods will have been traded on the site in 2003.

But Mrs Whitman does know that other web companies are lusting after bits of her business. Amazon, for one, now offers a service selling used goods alongside its expanding list of new products. Such competition is hardly surprising; eBay has been the most successful e-commerce venture by far. In its latest quarter, the company reported that net profits had reached $103m, up 69% from the same period a year earlier. By 2005, its net revenue is expected to reach $3 billion.

What should Mrs Whitman do to stay ahead of the competition? Attack is one option. She could cut more deals with big companies such as IBM, Motorola and Sears, Roebuck, who have already started to use eBay to dispose of some of their excess inventory. With 85m registered users—almost half of them active traders—eBay is a tempting online shop-front for selling new goods at fixed prices. Then there is PayPal, eBay's online payment service, which could be transformed into a broad financial-services company, perhaps even an online bank.

Don't, however, expect either of these things to happen, at least for a while. The big retailers, which so far represent about 5% of eBay's business, are not getting favourable treatment. “There are no special deals. I am passionate about creating this level playing field,” says Mrs Whitman. As for PayPal, even though it is increasingly being used as a currency across the internet, she says she does not want it to become a bank, especially with all the onerous regulation that would involve.

Instead, Mrs Whitman is concentrating on making the existing business bigger and better. For her, this has to be the way forward, not least because it is also the way that the “eBay community” is directing the firm. Mrs Whitman sees her job not just as a chief executive, but also partly as something like a mayor running a town-hall meeting. Her constituents want her to provide the best infrastructure for them to get on with doing their own business with one another. And they would like her to make sure everyone

keeps to the rules. Many individuals and companies now depend on eBay to reach their customers. Several million part-time businesses are run on eBay, and it is reckoned that tens of thousands of people have given up their jobs to make a full-time living selling on the site. They often see eBay as a way of profiting from a hobby or other interest.

As with any community, security is a concern. While eBay has its own team to hunt down fraudsters, the most important way that transactions are kept honest is by members policing themselves. The company has developed a unique feedback system in which both buyers and sellers rate one another each time a deal is completed. These personal profiles, which can be examined by anyone, have become a valuable means for traders to establish their credibility. The way eBay earns its money is by letting everyone else do the work and taking a small fee for listing an auction, plus a commission from a completed sale. On top of that, various value-added services are offered to regular users, including links to sellers' own online shop-fronts.

Mrs Whitman is convinced that, by holding to such a strategy, eBay will remain ahead of the pack. “We do what we do better than anyone else,” she says. That eBay has already survived earlier sorties on to its turf, not least by the likes of Microsoft and Yahoo!, is a testament to the strength of its approach.

Kicking tyres

So far, eBay's users have been dictating the strategy. It was the community's desire to use PayPal, rather than a rival in-house payments system which the company was promoting, that persuaded Mrs Whitman to buy PayPal. To the surprise of many eBay managers, used-car trading began a few years ago. And, strange as it may seem, there are people who will bid for a four-year-old Buick without ever having been able to kick its tyres. That operation, called eBay Motors, is likely to turn over almost $6 billion-worth of vehicles in 2004, making it one of the biggest used-car markets in the world. It is even used by Detroit. The eBay traders are already spawning new businesses: inspection services for online car-sales, for instance, and firms that will auction other people's goods on eBay on their owners' behalf.

Looking out for the interests of millions of online entrepreneurs as they click through auctions of mostly second-hand and clearance stock might not appear as glamorous as cutting deals with big retailers. But it is as necessary. The biggest advantage of eBay is its size and the networking effect which that creates. If you are a seller, it is the place with the most buyers; if you are a buyer, it is the place with the most price information.

The advantage of size can only grow as eBay expands overseas, which is why Mrs Whitman is so keen on venturing abroad. She is finding it easy to build a multinational that is able to think globally, but act locally. The firm's foreign sites rapidly become local, as the traders use their own language and establish their terms of trade. These can vary a great deal: alcohol sales are largely banned in America, for instance, but wine is a big category on eBay's French website.

As the company spreads across Europe and Asia, it usually does so by buying what Mrs Whitman calls “baby eBays”, local imitators who help pioneer the concept. She is currently eyeing such a firm in India, which could be a potentially huge new market to enter. As long as the queen of the online flea market can keep her subjects happy, eBay will continue to thrive.

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Citigroup

Prince for a Weill

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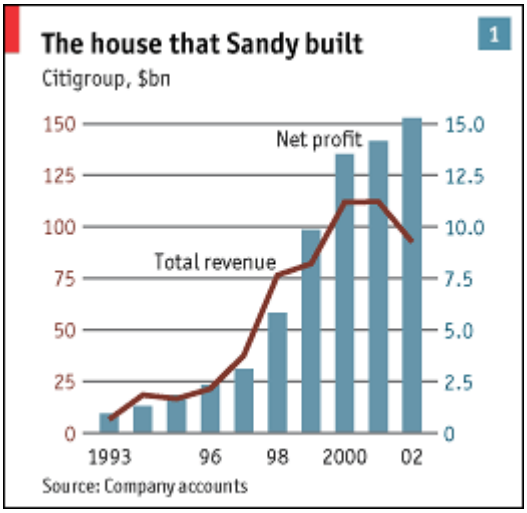
The trouble with succeeding a celebrity

IN MID-JANUARY, Charles Prince will make his public debut as chief executive of Citigroup, the company with the world's largest profits. A routine announcement about the financial conglomerate's quarterly earnings will be his first big test since he took over from Sandy Weill, a Wall Street legend who moulded Citi into its current handsome shape (see chart 1). Mr Prince is well aware that ABB, Coca-Cola and General Electric are among the many companies to have faltered on the departure of a celebrity boss. And these had none of the regulatory troubles that beset America's financial industry.

The intensity of the countdown to the end of the quarterly cycle has, says Mr Prince, been the biggest single surprise so far in his new job—an odd perception, given his many years at Mr Weill's side as his corporate lawyer. The intensity is not without good cause. Mr Weill ended on a heroic note, announcing record quarterly earnings in October. But the details of the results showed signs of strain. For example, they included one-off gains from reversals of tax and credit charges. Mr Prince must convince the markets that he can maintain Mr Weill's underlying success.

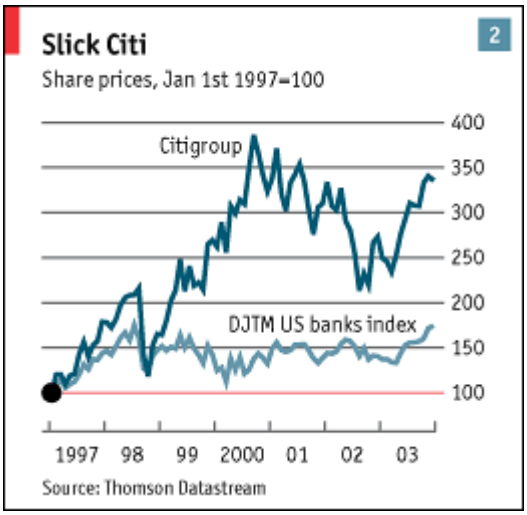


His job is complicated because it is not clear whether Mr Weill has actually left. Mr Prince has assumed control of the Monday morning meetings of a dozen senior executives (mandatory even during vacations) and the monthly day-long sessions with the top 50 or 60 managers, and Mr Weill is said to have ceased the all-day barrages of inquiries with which he maintained control. But Mr Weill is due to remain chairman until 2006 and is keeping his old office, above Mr Prince's, in the group's New York headquarters.

Moreover, a series of management moves can be viewed as an elaborate plan to diffuse power among a consortium of Mr Weill's most loyal retainers. The most recent example is the promotion in December of Robert Druskin, a man Mr Weill worked with as long ago as 1974, to head Citi's investment bank. The circumstances of Mr Weill's departure lend some support to this theory. Having passed the normal retirement age, he had come under pressure to move out after the Wall Street scandals of 2002, in which

both he and the bank played a role. In naming Mr Prince as his successor, Mr Weill essentially put his lawyer in his place, which is what people often do to resolve a transient problem.

Citigroup's success is built on the trust it engenders: the trust of the wholesale financial markets which allow it to fund its huge portfolio of securities for less than its rivals; that of its customers, who put $1 trillion of assets into its care; that of the equity markets which, by valuing the group highly (see chart 2), provide currency for its acquisitions; and finally, the trust that leads regulators in more than 100 countries to grant the group the right to operate there. Such confidence is striking given that in the past 20 years Citigroup's banking operations came close to going bust at least once, and that its brokerage, consumer-finance and insurance operations were all picked up in distress sales.



Others are trying to copy its operating model, that of an enormous financial supermarket. That said, the model has failed before; and size and scope are not unmitigated strengths. Citigroup earns almost four times as much as UBS, the most closely comparable firm outside America, and five times as much as Bank of America (BofA), its traditional rival. Yet the group's broad geographic scope means that it is exposed to every local difficulty as well as any global trouble, while its wide range of products and services makes it particularly vulnerable to conflicts of interest. Its record in handling these is not unimpeachable.

Working in Mr Prince's favour is the fact that he appears to have inherited his predecessor's good fortune. Last summer, when Mr Weill announced the transition, America's economy looked shaky. Since then, clear evidence has emerged of a recovery. Among many benefits, a crucial variable cost, credit losses, will decline. Merely a return to the level of losses of two years ago will add $2 billion to profits. If Mr Prince does nothing he should do well, at least in the short term.

The favourable environment may help explain his recent comments suggesting that Citi will now rely on organic growth, rather than the transforming mergers that have been its way in the past. Organic growth, however, requires innovation as well as Citi's well-known obsession with cutting costs.

There are some signs that this may be coming. The group has a remarkably cohesive marketing campaign aimed at women, as well as a growing emphasis on Hispanic-American customers. But unlike powerhouses in other industries, such as Microsoft or Pfizer, Citi does not have unique products, or even compelling ones. In America, Capital One and MBNA have a more creative approach to credit cards; Schwab to selling stocks; Fidelity and Vanguard to mutual funds; and Wells Fargo to cross-selling financial products. Their chances of growing organically are greater.

Beyond the acquisition trail

Citi has long considered acquisitions to be its core strength, much as marketing might be for another company. Mr Weill's “long march” to creating the group began in 1986 when he gained control of a company called Commercial Credit that was then listed on the New York Stock Exchange and became the basis for further acquisitions.

Within two years, Mr Weill had bought Primerica, a financial-services firm. A year later he picked up the brokerage business of Drexel Burnham Lambert. Then he added the brokerage operations of American Express and after that Travelers, an insurance company caught in a bad cycle. Salomon Brothers, which had never recovered from a treasury-bond trading scandal in the early 1990s, was bought in 1997. Then came the big one: the 1998 merger of Mr Weill's brokerage-and-insurance empire, with its vast army of salesmen, and Citibank, with its vast balance sheet. In each deal save the last, hard times had brought the target's price down and made it vulnerable to Mr Weill.

The acquisitions continue, albeit on a smaller scale. In recent months Citi has bought the credit-card portfolios of two retailers, Sears and Home Depot, and the consumer-finance operations of Washington Mutual, a retail bank. It seems sure to shop some more, especially overseas. The group still does not have a big market share in Europe. There have long been rumours of a bid for Deutsche Bank.

Even in the United States there are gaps. Citi's branch network is strong only in New York and, to a lesser extent, California. Citi bid for FleetBoston Financial, a New England bank won recently by BofA, which has the country's broadest retail network. Might it make sense to buy BofA? Regulators might have some objections. But it would be affordable—BofA's shares tanked after the FleetBoston deal—and it would plug Citi's gaps.

Mr Prince, however, is talking about sales more than purchases. Now may be a good time for a company characterised by perpetual transformation to change tack radically. Following the Wall Street scandals, regulatory pressure is prompting a reconstruction of the barriers between the diverse businesses that Citi has melded into a cohesive financial enterprise. And it is hard to imagine that all of Citi's conflicts of interest have yet emerged.

American mutual funds have only just begun to catch the regulator's eye. A year ago, in its annual report, Citi bragged that its proprietary funds accounted for one-half of sales by its American bank and three-quarters of sales by Primerica. Firms that push their own products benefit from both up-front commissions and continuing management fees. Regulators are wondering whether this does not constitute a violation of the legal requirement that funds operate in the interest not of their sponsors but of their shareholders. If it does, then the directors of Citi's 230-plus funds, with $106 billion in assets, will have to look for new investment-managers.

In the same way, the link between Citi's commercial-banking and investment-banking operations is under suspicion. The first battle in this area, over “tying”—the extension of credit in exchange for fees paid for other services—has been largely won by Citi. Other conflicts are only now becoming evident, most vividly in the litigation emanating from Enron, WorldCom and other cases. Every offering, every piece of advice, every trade that Citi makes potentially places its own interest at odds with those of its customers. It is not impossible to imagine that whole swathes of business may one day be carved away by regulatory edict, much as occurred in the 1930s. If this is the true threat to Citi, then having a lawyer as chief executive may prove to have been a wise choice.

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About sponsorship

German banking

Cometh the man

Dec 30th 2003 | FRANKFURT
From The Economist print edition

At WestLB a huge task awaits the new chief executive, Thomas Fischer

IT WILL take something special to clean up the mess at WestLB, the wholesale- and investment-banking arm of Germany's biggest public-sector banking group (and the third largest of all). Years of politically motivated lending and slack controls have left nasty stains on the balance sheet. In German financial circles, quite a few think that Thomas Fischer, who is due to become WestLB's chief executive on January 1st, is the man for the job. He knows about risk: until January 2002 he was the board member in charge of risk control at Deutsche Bank, Germany's biggest bank. He also knows about the politics of the state sector, having run a Stuttgart bank that is now part of Landesbank Baden-Württemberg, product of a successful marriage of public-sector wholesale and retail institutions.

In 2002 WestLB lost €1.7 billion ($1.6 billion). In 2003, although it thinks its operating results will be "markedly" better, it had one problem after another. Several board members have resigned, including two chief executives. The costliest catastrophe was an investment in boxclever, an inaptly named British TV-rental company, for which the bank has had to write down over €700m. Why, wondered many, was so much equity and loan capital being risked on such investments by Robin Saunders, who ran the principal-finance unit in London (and also took personal stakes in these ventures)? The unit has been stopped from looking for any new business, and Ms Saunders is leaving.

The German financial watchdog, BaFin, has conducted an investigation into WestLB's engagements in boxclever and another into its credit-risk controls in general. The state prosecutor in Dusseldorf is also examining possible breaches of trust by as-yet-unnamed WestLB executives. In December, the bank said that, prompted by BaFin, it was making another €500m of equity write-offs and credit provisions. Most of this concerns its exposure to Boullioun, an aircraft-leasing firm in America.

WestLB has been one of the most active German banks in international capital markets. However, like all Landesbanks—public-sector wholesale and development banks that also act as clearers for local savings banks—it relied on its state guarantee to secure cheap wholesale funding and did not bother too much about its rate of return. From July 2005 the guarantee will not apply to new borrowing.

Since August 2002 WestLB has been a joint-stock company (and thus, in law, a private-sector entity) under a public-sector parent, Landesbank NRW. Of this, 43% belongs to the state of North Rhine-Westphalia and the rest to local savings-banks and farm-credit associations, which have the option of switching their ownership directly to WestLB.

Unless WestLB cleans up its act before it loses its state guarantee, say rating agencies, its credit rating could drop to BBB, too low for it to operate as a wholesale bank. Mr Fischer, who used to box and still keeps pretty fit, will have to be quick on his feet. The bank's current strategy is to continue its international business, to focus on medium-sized companies in Germany and to serve the savings banks with wholesale products. Merging with the savings banks may be one option. In the meantime, the bank could do with more capital, which the owners may provide if they continue to have faith in Mr Fischer.

But most of all WestLB needs good leadership. Almost too much rides on Mr Fischer. His credentials are good; he knows how to manage risk; he speaks fluent English (with a Canadian accent). He says what he thinks—sometimes too readily for his own good. He quit Deutsche Bank twice, the second time because he disapproved of the un-German executive structure devised by the new boss, Josef Ackermann. Mr Fischer may also have been disgruntled because he had not got the top job. Still, his stand won him credit with the traditional school of German banking.

As a manager, he is not great, but "all right with good people around him," says a former colleague. He

has a habit of leaving a job abruptly if he does not get his way. Maybe that's just the threat needed to force change on WestLB.

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Our house-price indices

Cracks in the brickwork?

Dec 30th 2003
From The Economist print edition

House prices continue to climb, but prospects for 2004 look bleaker

AFTER three years of falling prices, investment in shares finally paid off in 2003. Even so, most stockmarkets remain 30-50% below their peaks in early 2000. Residential property, in contrast, has brought uninterrupted rewards: in most countries house prices have continued to rise rapidly throughout the past four years, thanks to cheap mortgage finance. This largely explains why economies held up more strongly than expected after stockmarkets slumped: higher house values offset much of the loss in share portfolios.

Indeed, households in developed economies have twice as much of their wealth tied up in housing as in equities, so swings in house prices can have a bigger impact on economies than sharp moves in stockmarkets. Yet until recently it was much harder to compare house prices internationally than it was share prices. To help fill this gap, in 2002 *The Economist* launched a set of global house-price indicators for 13 developed economies, going back to 1975. It is time for our latest quarterly update.

The Economist's house-price indices 1
% change on a year ago

	2003 Q3*	2002 Q4
Australia	17.6	18.4
Britain	16.0	24.9
Spain	15.7	17.4
Ireland	13.6	11.1
France	11.1	9.3
Italy	10.6	9.8
Canada	6.9	6.7
United States	5.6	7.7
Sweden	5.2	9.2
Belgium	4.2	9.9
Netherlands	1.9	4.1
Germany	-4.5	-3.3
Japan	-5.7	-4.7

Sources: Bulwien; ESRI; Japan Real Estate Institute; Ministerio de Fomento; Nationwide Building Society; NVM; Nomisma; OFHEO; Stadim; government statistics *Or latest

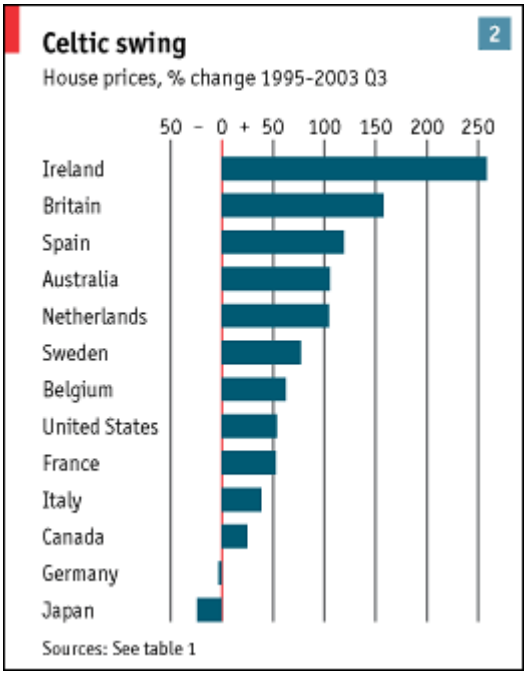
In the year to the third quarter of 2003, house prices rose by 10% or more in six of our 13 countries (see table 1). Australia topped the league with an increase of 18%, roughly the same pace as in 2002. At the other extreme, home prices fell by 5-6% in both Germany and Japan during the year. In most countries, house-price inflation slowed in 2003. The exceptions were France, Ireland and Italy, where prices increased at double-digit speed. In America house prices lost some zip. The 5.6% pace in the year to the third quarter was the slowest for four years.

Since 1995, house prices have more than tripled in Ireland and more than doubled in Australia, Britain, the Netherlands and Spain (see chart 2). In comparison, the 54% increase in average American house prices over the same period looks modest. However, the 30% gain in real house prices in America (ie, after adjusting for consumer-price inflation) is by far the biggest rise during any eight-year period in the past three decades and double the increase in the boom of the 1980s. The average figure for the United States also conceals bigger increases in some cities, including San Francisco, Boston and New York.

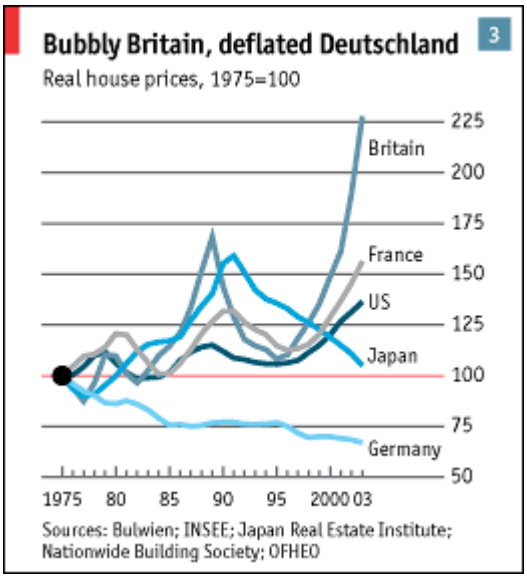
Chart 3 looks at house prices in real terms in the five biggest economies since 1975. Today the real price of the average British home is 128% higher than in 1975; an American home is only 36% dearer. Japanese house prices have been the most volatile: after surging during the 1980s they have plunged for 12 years running. Even so, prices in Japan are still slightly above their 1975 level in real terms. In contrast, real house prices in Germany are now 33% lower than in 1975, having fallen in 20 of the past 28 years. In 1975 a home in Germany cost three times as much as one in France. Now prices in the two countries are more or less the same.

During the past year *The Economist* has drawn attention to six housing markets where prices look dangerously overvalued:

America, Australia, Britain, Ireland, the Netherlands and Spain. So far, average prices have not fallen, although house prices have slowed in many countries. However, cracks are starting to appear. Prices dropped in many parts of London in 2003. Average home prices in New York dipped in the third quarter for the first time since 1996. The prices of flats are falling in Sydney and Melbourne. The proportion of homes put up for auction—the most common method of sale in Australia—which are then successfully sold has fallen to below 50%. Further price declines look likely.



Housing markets in all six of these countries will face more testing conditions in 2004 than in the past four years. First, with house prices at record levels in relation to incomes, first-time buyers are being priced out of the market. Second, an excess supply of properties has reduced rents in many countries at the same time as prices have climbed. This has cut yields, making housing less attractive as an investment. In America, a record 10% of rental properties are vacant. Last, interest rates are more likely to rise than to fall. The Bank of England and the Reserve Bank of Australia have already increased interest rates. American mortgage rates, which are linked to bond yields, have risen.



At best, therefore, house prices are likely to flatten off in many countries in 2004. But in many big cities there must be a high risk that prices will fall.

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Exchange rates

A bet comes due

Dec 30th 2003
From The Economist print edition

The dollar's recent slide should have been easy to predict

IN AUGUST we disclosed the incredible forecasting record of America's top economists who attend the annual symposium of the Federal Reserve Bank of Kansas City in Jackson Hole, Wyoming. Each year our economics editor conducts an informal poll of a select group who meet for drinks after dinner. At the peak of the stockmarket boom they were asked: "Is this a bubble?""No," they confidently voted. In 2001 they ruled out an American recession and last year they predicted that interest rates would not fall to 1%. In short, they provide an excellent contrarian indicator.

So it has proved once again. In August they were asked: "Will the dollar fall to $1.25 against the euro at any time in the next 12 months?" They gave a resounding "No", with one exception. (One euro then bought $1.10.) Lo and behold, on December 29th the dollar dipped below $1.25. The dollar rate may rise or fall by the time of the 2004 symposium, but two European banks, UBS and HSBC, are betting that it will fall below $1.30 to the euro by the end of 2004.

We asked our Jackson Hole gang a second question in August: "Will American house prices fall in the year to mid-2004?" All but one answered "No". House prices are still rising (see article), but the record suggests that property is now a screaming sell.

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South-East Asian stockmarkets

A vote for equities

Dec 30th 2003 | BANGKOK
From The Economist print edition

After a good 2003, will 2004 be better?

THE past year has been a good one for South-East Asian stocks. Markets in both Singapore and the Philippines have risen by more than 30% in dollar terms; Indonesia has surged more than 70%; and tigerish Thailand has leapt by almost 130% (see chart). Investors, needless to say, are keen to know whether lightning will strike again in the same places in 2004. There is indeed something good in store: elections.

The gains of the past year are easy to explain. Indonesia, for one, has finally found its feet after years of chaos following the regional crisis in 1997. Inflation and interest rates are falling, and the economy has grown by around 4% in the past year. Add in the ongoing appreciation of the rupiah, and Indonesian shares looked cheap.

Thailand's economy, meanwhile, has been doing even better. It grew at an annual rate of 6.5% in the third quarter, and is likely to have achieved something similar in the year as a whole. Consumers, spurred on by low interest rates, have been frantically snapping up cars and houses, helping crisis-hit companies pay off their debts and thus improving the balance sheets of Thailand's struggling banks.

Analysts tell similar tales of asset reflation all around the region. Markus Rosgen, of ING, a Dutch bank, notes that Asians have been piling up deposits in their bank accounts since the crisis. With interest rates so low, he argues, they now have an incentive either to consume more or to put their savings into more lucrative investments. Either way, share prices should rise. Even now, all South-East Asian markets are still well below their pre-crisis highs; valuations, on the whole, are lower than historic averages. Moreover, points out Christopher Wood of CLSA, an investment bank, all South-East Asian markets except Singapore serve as useful hedges against America, since they do not rise and fall in lockstep with Wall Street.

Unexpected events might yet upset this rosy prognosis. There will be elections in the Philippines and Indonesia in 2004, and probably in Malaysia too. Thailand goes to the polls at the beginning of 2005. Economically inept governments, street protests or bombing campaigns are always a possibility. But the incumbent leaders seem likely to get re-elected in all four countries. Furthermore, they will spend a lot of money in the process, out of both the state budget and their own pockets, giving their economies a further boost. As a recent report by ING points out, Indonesian stocks rose in the run-up to all of the past three elections, turbulent and turgid ones alike.

The one country that might not profit from this pre-election effect is the Philippines. Its government, struggling to rein in its budget deficit, is already piling up debt. That has a doubly dampening effect on the stockmarket: it calls the country's macroeconomic stability into question and provides plenty of alternative high-yielding assets in the form of government bonds. The peso is one of the few currencies that have depreciated against the dollar this year, making local stocks still less attractive. If President Gloria Arroyo opens the state coffers for the election, investors might take fright. What's more, she is the most vulnerable of the regional leaders up for re-election. It is scarcely reassuring that her strongest opponent is Fernando Poe junior, a film star with no political, let alone economic, experience.

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Whaling

A bloody war

Dec 30th 2003
From The Economist print edition

Brandon Cole

Obduracy in the face of hypocrisy

MANY quarrels divide nations, but few do so with the ferocity that characterises the war between those who want to hunt whales and those who would see the practice stopped. The front line in this long-running war is the International Whaling Commission (IWC), a multilateral organisation—part industry regulator, part conservation body—from whose trenches pro- and anti-whalers hurl insults at each other year after year.

In some years it is the pro-whalers who inch forward through the mud and carcasses of their fallen comrades. In 2001 whale-eating Iceland rejoined the commission (it had left in a huff in 1992), boosting morale among manly hunter-gatherers like Norway and Japan. Other years find the anti-whalers creeping forward on their bellies, clutching green flags of conservation and environmentalism. But neither side seems capable of decisive progress. The past twelve months were thus fairly typical, with anti-whalers such as Britain, Australia and New Zealand trumpeting a new “Berlin initiative” to save the whale, just as Iceland returned to the hunt for the first time since 1989. Even if one side acquires some lasting advantage, a new stalemate can be achieved simply by the other side recruiting new allies to its cause. Set up in 1946 by the world's 14 main whaling countries, the IWC's membership has swelled to 51, and now includes such illustrious maritime powers as landlocked Switzerland (an anti-whaler) and Mongolia (a supporter).

Why does whaling arouse such passions? One argument that excites the anti-whalers is that whales are endangered, and that whaling therefore threatens their extinction. As Greenpeace, whose pioneering activism helped to secure the IWC's international moratorium on commercial whaling in 1986, declares in its fund-raising material: “The world's great whales are in trouble. A return to large-scale commercial whaling is just a hair's breadth away. We need your help!”

Seven of the 13 species of great whale, including the blue whale and the bowhead, are indeed considered endangered. But several—fin and Bryde's whales in some waters, and minke whales just about everywhere—are abundant. (In wonderfully inflammatory language, one Japanese bureaucrat has called minkes the “cockroaches of the sea”.) Iceland, Norway and Japan all contend that they want to catch only abundant species of whales. Norway counts 107,000 minke whales in its economic waters, and Iceland 43,000. Several hundred thousand more frolic happily in the southern Pacific. From this profusion of minkes, whose numbers grow at about 2-3% a year, Iceland takes 38 whales, Norway 711 and Japan up to 540.

Pirates in the deep green sea

Predatory these countries may be, but Iceland boasts some of the best marine-resource management policies in the world, which should not be surprising as fish products make up 70% (by value) of the country's exports of goods. Though Norway's fishing boats have a reputation for being pretty ruthless when it comes to salmon or sand eels, the Norwegian government is justifiably proud of the greenness of its policies, including those for fish-stock management. Even depraved Japan claims to have no desire to hunt the great whales to extinction.

Some anti-whalers appear to be in deep denial about these facts. At the IWC's meeting this year, for instance, Britain's fisheries minister, Elliot Morley, claimed that there were “no reliable stock estimates to suggest an abundant whale species”, thus contradicting the IWC's own scientists, who have endorsed the pro-whalers' estimates for the minke population. Richard Cowan, the chief bureaucrat on the British team, points out that Norway's estimate has fluctuated a bit, and dropped slightly recently. But that recent drop, suggests Halvard Johansen, Norway's senior official, may be because Britain childishly refused to let Norway count the minkes in the British sector of the North Sea, arguing that it would not be “in the best interests of the whales”.

AP

Not absolutely delicious, even unpolluted

Other activists, such as the World Wildlife Fund, appear to accept the evidence that the populations of certain species are recovering to healthier levels. Nevertheless, the WWF argues that it would be dangerous to allow the resumption of commercial whaling without first putting in place proper safeguards, and then ensuring they were administered by the IWC. This is a goal the whaling countries say they have been working towards for years but, thanks to the opposition of such countries as Britain, Australia and New Zealand, their efforts have been frustrated.

Sailing into the sunset

According to its charter, the IWC was set up to manage “the proper conservation of whale stocks and thus make possible the orderly development of the whaling industry”. In the years since the moratorium was imposed, the IWC's scientists have determined that in certain waters minke, fin, Gray and Bryde's whales are now abundant enough to be hunted commercially. They have also devised a conservative method for calculating catch limits. At first, the IWC's politically appointed commissioners refused to accept their findings, prompting the resignation of the scientific committee's British chairman, Philip Hammond, in 1993. Since then, the discussions have become bogged down over non-scientific issues, as the anti-whalers have frustrated all attempts to lift the moratorium. As justification for this behaviour, some anti-whaling governments talk about the IWC's “evolving” mandate. Mr Cowan suggests that one possible interpretation of the “orderly development of the whaling industry” is its “orderly running down to nothing”.

The anti-whalers' claim about the imminent return of “large-scale” commercial whaling, meanwhile, is badly misleading. Rapacious and uncontrolled commercial whaling (most notably by Britain and America in the 18th and 19th centuries) did indeed drive many species, such as the right whale and the sperm whale, close to extinction. But the whaling industry began its long decline more than 150 years ago, as demand for its products—which ranged from candles to lamp oil, corset whalebone, cosmetics and engine lubricants—evaporated with the appearance of petrochemicals, steel and plastics.

All that is left of this once-thriving business is the market for whalemeat and, on the available evidence, this market is small and stagnant. Whale is cheaper than beef in Norway. Yet, despite the Ministry of Fisheries' claim that whale “tastes delicious and is very healthy”, and despite the low prices at which Norway's modest catch is sold, it still has whalemeat left over for export. The Japanese, eager to resume whaling and by tradition a nation of whale-eaters, might be expected to be buyers, but they are not. They think Norwegian whalemeat contains too many pollutants to choke the stuff down.

They also think this of some Japanese-caught whales. But the Japanese anyway seem to have lost their taste for what was once a delicacy. Whalemeat is expensive in Japan, and little eaten. Only one restaurant in all of Tokyo, a gourmet's paradise, specialises in whale cuisine. No one seems to think the

market will grow much, even if prices drop. The government organises national whale-eating days and special events. But the young prefer burgers.

Iceland remains optimistic about demand. Stefan Asmundsson, Iceland's chief whaling bureaucrat, talks enthusiastically about long-term plans for opening up markets such as America, once commercial whaling is “normalised”. To judge by the state of American public opinion, he may have quite a wait.

In reality, pollution, merchant shipping and commercial fishing all pose far greater threats to the world's whale populations than any likely commercial-whaling industry might. Even though it seems to recognise this, the WWF argues that such threats should only intensify opposition to commercial whaling, because that would add to the pressures that do exist. The whaling countries return to their theme that the IWC was set up to regulate commercial whaling, not marine pollutants or other environmental nastiness, that other international bodies deal specifically with these environmental problems and, most pertinently, that they do not alter the basic fact that some species are abundant. “Our opponents like to put themselves up as environmentalists,” says Iceland's Mr Asmundsson. “They are, of course, not. To be against the utilisation of an abundant stock is not environmentalism.”

The anti-whalers supplement their environmental objections with policies based on notions of animal welfare or animal rights. Writing to the *New Scientist* last September, New Zealand's commissioner to the IWC, Sir Geoffrey Palmer, said the arguments against killing whales were “scientific, moral and ethical”. “Our attitudes to whaling are not based entirely on scientific evidence,” agrees Britain's Mr Cowan. “We have a view that killing whales is inherently cruel.”

Cultural cruelty is fine

That, apparently, does not matter—at least to the IWC—if the killing is done by certain people, even if their prey is less than abundant: the IWC gives various “indigenous” groups, such as the American Inuit, permission to hunt a few whales belonging to endangered species, supposedly because such people have a need that others lack.

By contrast, every Norwegian whaling expedition must by law include a qualified vet. According to Norway's government, these vets report that 90% of the whales killed by its fishermen die instantly, as a grenade attached to the harpoon blows the brain apart. The remaining 10% are dispatched swiftly with the use of a rifle. Boats station themselves above the whales, the minkes surface and quickly die. Indeed, Norway has become so proficient at humane killing that the United States—which sometimes joins Britain, Australia, New Zealand and others in condemning the barbarity of whaling—brings Norwegians over to Alaska to help improve Inuit techniques.

Alleging that whaling is inherently cruel, as the British do, often comes with the further claim that whales are somehow “special”: they are extraordinarily intelligent, perhaps, or spiritual, noble or peaceful, or they have some mixture of these qualities that makes killing them more reprehensible than, say, killing cows or pigs. Science has little to say about this sort of speculation. Whales look peaceful enough, though bull whales of some species bear the scars of fierce fighting with other males. Contrary to popular belief, only humpbacks “sing”, and not much is known about their purpose in doing so.

Are whales spiritual? If you like. Only remember also that, 150 years ago when “civilised” Britain and the United States competed fiercely for dominance of the whale-oil industry, polite society had a somewhat different notion of the noble giants of the sea. Then, they were brutal and heathenish. A notebook belonging to Thomas Nickerson, the cabin boy of the *Essex*, a Nantucket whaling ship, preserves a gripping account of how a “monster” of an enraged sperm whale sunk his ship in 1820. The sailors subsequently had to start eating each other to survive, a twist that no doubt would have tickled the whales.

As a final gibe, anti-whalers accuse whaling countries of cowardly deception, by conducting their whaling under the cover of “scientific research”. Only Norway calls its whaling commercial. (This is not illegal, because Norway reserved its position on the IWC's 1986 moratorium.) Iceland and Japan say they want to research whale diets to manage fish stocks more effectively. Iceland guesses that its minke whales eat about 2m tonnes of marine “biomass” a year—a bit more than its fishermen catch—and wants to know how much of that is, for instance, cod.

Sceptics sniff profits

Anti-whalers say this is a flimsy cover for commercial fishing interests, buttressing the Greenpeace line about the imminent return of large-scale commercial whaling. Yet neither Japanese nor Icelandic whaling can really be described as “commercial”, at least if that term embodies any concept of profits. The governments of both Japan and Iceland do recoup some of the costs of their research by selling the meat of the whales they kill—but this, they argue, they are required to do by the IWC, which stipulates that creatures killed for scientific purposes should be “processed”.

It is possible, however, that the desire of both Iceland and Japan to resume commercial whaling fills their governments with greater enthusiasm for these controversial research programmes than they might otherwise possess. Australian scientists have pioneered new methods of researching whales' diets that involve the analysis of their faeces and do not depend on killing them first. Iceland says these methods are not proven, but no doubt it also believes that its lethal research programmes help to keep alive the possibility that commercial whaling may one day be resumed. Were they to stop, the anti-whalers would be able to claim a victory that might help pave the way for the outright banning of all whale-hunting.

If the whalers are needlessly obdurate, their opponents can be just as needlessly hypocritical. Their mixture of propaganda, insults, distorted scientific half-truths and lies tends to stir up nationalist sentiment among the pro-whaling countries, who consider themselves victims of sanctimonious foreigners practising cultural and culinary imperialism. Not one member of the Norwegian parliament opposes his government's policy, says Norway's Mr Johansen. The public is solidly behind the government, say Icelandic officials. In Japan, where public opinion matters rather less in politics than some foreigners suppose, nationalist politicians also put up a robust defence.

Britain opposes whaling, explains Mr Cowan, “because that is what the public expects us to do.” But opinion surveys suggest that most Britons (as well as Australians, Americans and others opposed to whaling) believe wrongly that all whales are endangered, which happens to be the impression given by both Greenpeace and the British government. Research by the Japanese government leads it to believe that most Australians think there is only one species of whale—“the whale”—and that it is endangered. An effort paid for by the Japanese government to stuff leaflets through Aussie letterboxes appears not to be doing the trick.

How might this bizarre war of attrition come to an end? For a start, those opposed to whaling could look themselves in the eye and ask why a multinational organisation, reflecting the views of just one group, should claim for itself the right to deny other countries the freedom to kill their own animals, which are in plentiful supply, as they see fit? Should those who disapprove of the killing of animals according to kosher or halal practice set the universal slaughtering standards for Jews and Muslims? Should Hindus be allowed to impose their views about cow-killing on the world's hamburger-eaters? Should militant vegetarians have the right to forbid anyone anywhere to kill an animal?

In fact, less moralising from the anti-whalers might even serve their purpose better, if that purpose is indeed to save whales from the harpoon. The economics of whaling is unlikely ever to attract much hunting, and certainly nothing on a large scale. It is the politics that excites: politicians champion whaling in Japan, Iceland and Norway because it is popular to stand up to foreign bullying. Perhaps, too, if there were less bullying, Iceland and Japan might feel less compelled to lavish taxpayers' money on such elaborate and ambitious whale-killing research programmes. Were it not for the politics, Japan and Iceland might even be up to their elbows in whale faeces already.

Oops, another species gone

They might also admit that hunting can lead to the extinction of species, sometimes even within a very short time. The passenger pigeon, for instance, was once probably the most numerous bird in the world, with a population in the 19th century in the billions. But by the early 1900s it was extinct. Though farming and other pressures on its habitat—mixed hardwood forests—would have made it hard for the species to survive in competition with modern man, the *coup de grâce* had been delivered by hunting. It is not fanciful to argue that that might have already happened to some species of whale had their killing not been banned. Recent research, recorded in the *Proceedings of the National Academy of Sciences*, suggests that the slaughter of over half a million whales in the north Pacific between 1946 and 1979 caused such a fall in their numbers that the killer whales that used to prey on them turned their attention to other creatures, such as seals, sea lions and otters, whose numbers have yet to recover. Whale stocks have recovered a bit, but stand at only about 14% of their former levels.

Whatever the facts, however, the politicians and lobbyists are not going to stop scrapping. They are having far too much fun scoring cheap points for their “environmentalism” or the defence of their country's honour, or rattling the Greenpeace collection tin. Yet with fewer anti-whalers, there might in time be fewer whalers, too, as the politics, lacking proper cause, faded to nothing.

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About sponsorship

Cloning and stem cells

Baby steps

Dec 30th 2003
From The Economist print edition

New work shows the promise, and pitfalls, of embryonic-stem-cell research

Get article background

FOR believers, Christmas is a celebration of the virgin birth. This season, however, researchers are pondering another sort of immaculate conception. Somatic nuclear transfer, or “cloning” as it is more popularly known, is a way of creating embryos without the conventional meeting of egg and sperm that is needed to provide a full complement of the genetic material to make a new individual. Embryos can also be created by parthenogenesis—a nifty biological trick in which an unfertilised egg cell is coaxed into providing all the genetic material required for embryonic development. In the January issue of *Wired*, a popular technology magazine, researchers at Advanced Cell Technology, an American biotechnology company, are reported to have used both techniques to create human embryos healthy enough to make it through at least the earliest stages of development.

Parthenogenesis occurs in the animal world. Many species of fish, birds and snakes reproduce naturally through parthenogenesis. And cloning has been performed in a wide variety of species, Dolly the sheep being its most famous offspring. Many researchers would like to apply these techniques to people.

Their interest is not procreation. Human reproductive cloning is so fraught with technical risks and ethical dilemmas that few respectable scientists will touch it, and parthenogenesis, while occasionally also observed in mammals, never produces viable offspring. But if such embryos could be coaxed far enough along the track of development to form multicellular structures known as blastocysts, they could prove a useful source of stem cells. Unlike most of the body's cells, which are locked into a single job for life, embryonic stem cells are able to reproduce themselves repeatedly, and when given the right biological signals, can mature into a wide range of different cell types. This makes them a potential source of new cells to repair damaged tissue in, say, diabetes or Parkinson's disease.

Michael West, Advanced Cell Technology's chief executive, is reluctant to confirm *Wired*'s story, which claims that the firm has managed to coax one of its cloned embryos into a 16-cell entity called a morula—the predecessor of a blastocyst. But Dr West does say that his firm has managed to generate stem cells through parthenogenesis, and is working towards building a bank of stem cells with particular immunological features, so that patients might one day be treated using those that pose the lowest risk of graft rejection.

As Advanced Cell Technology has yet to publish the current research in a peer-reviewed journal, and the firm is known to be searching for funds, many experts are sceptical of its claims. Among the critics is Gerald Schatten, a researcher at the University of Pittsburgh who is working on generating embryonic stem cells from cloned monkey embryos. Primates (humans included) are tougher to clone than other animals, he says, because the molecular machinery needed for cell division is somehow impaired during the process of cloning. Though Advanced Cell Technology may have managed to create early-stage embryos, Dr Schatten awaits experimental evidence that these can develop far enough for stem cells to be derived from them and that those stem cells will, in turn, develop normally in a test tube.

Parthenogenesis, on the other hand, is proving a reliable source of embryonic stem cells, at least in monkeys. Jose Cibelli, who once worked at Advanced Cell Technology and is now a researcher at Michigan State University, has managed to coax parthenogenetically derived embryonic stem cells into forming various cell types, including nerve cells that produce dopamine, a brain chemical whose deficiency leads to Parkinson's disease. The next step is to inject these dopamine-producing cells back into monkeys to see if they can do the same job inside a warm body.

An embryonic science

While research is yielding novel sources of embryonic stem cells, and ways to give ordinary cells stem-like powers, it is also revealing new challenges in translating this research from the laboratory bench to the patient's bedside. One problem has to do with the way human embryonic stem cells are cultivated in a test tube. Stem cells are hard to grow in sufficient quantity and purity for research, let alone for therapeutic applications. They dislike solitude and refuse to thrive unless they are in contact with so-called “feeder” cells. These provide biochemical signals that allow stem cells to maintain their unique characteristics and prevent them from differentiating into mature cell types.

Mouse cells are normally used as feeders for human embryonic stem cells, but many researchers are worried about employing differentiated cells derived from such lines as actual human therapies, for fear they may have picked up nasty viruses from their mouse feeders. Indeed, a recent report from a team of stem-cell experts co-ordinated by Johns Hopkins University, in Baltimore, has concluded that “it would be unethical to expose human subjects to stem-cell lines that have been derived with mouse feeder layers.”

A number of groups are working on alternatives. One possibility is to use human, rather than mouse, feeder cells. Ariff Bongso, a stem-cell researcher at the National University of Singapore, has tested a number of human cell types and found that adult skin cells work just as well as mouse feeders at keeping human embryonic cells healthy and happy.

Another option is to dispense with feeder cells altogether. In the January issue of *Nature Medicine*, Ali Brivanlou and his team of researchers at Rockefeller University in New York, the University of Athens in Greece and the Centre National de la Recherche Scientifique in Roscoff, France, have found a way of cultivating human embryonic stem cells for several generations in the absence of feeder cells. Instead, they grow their cells with a molecule called 6-bromoindirubin-3'-oxime (more catchily known as BIO).

BIO is known to inhibit the activity of a molecule that acts as a brake on a system of molecular signals called the *Wnt* pathway. Growing human embryonic stem cells in the presence of BIO allows the *Wnt* pathway to function fully. That, in turn, keeps the cells dividing without differentiating into other cell types. Yet when exposed to the right environment, BIO-treated stem cells still mature into special types, such as nerve cells, as efficiently as those grown in more conventional conditions. Dr Brivanlou and his colleagues are now trying to develop better molecules than BIO, in the hope of using them to gain even more effective control over the process of differentiation.

Lines in the sand

Despite these promising new approaches, many hurdles lie in the immediate path of human embryonic stem cells. One is regulatory. On August 9th 2001, President George Bush announced that federal funding for human-embryonic-stem-cell research would be restricted to work done on those cell lines established by that date. At the time, more than 60 such lines from laboratories around the world were provisionally eligible. Today, however, only a dozen or so lines are actually available for federally funded researchers in America, since these are the only ones that laboratory tests have so far proved have all the properties of *bona fide* human embryonic stem cells.

This is a far cry from the rich pickings which such researchers were first promised, and even this slender selection of eligible cells may not be so desirable after all. It turns out that all the approved lines were grown using mouse feeder cells. Yet scientists risk their federal grants if they try to derive embryonic stem cells using alternative methods.

Another challenge has to do with the long-term behaviour of human embryonic stem cells—no matter their provenance—both in the test tube and in the human body. In the January issue of *Nature Biotechnology*, Peter Andrews of the University of Sheffield, in England, James Thomson of the University of Wisconsin, and their colleagues, report that human-embryonic-stem-cell lines grown over several months in the laboratory can develop genetic abnormalities. In particular, the embryonic cells they studied gained extra bits of chromosomes 12 or 17, which the group speculates may help these cells retain their ability to renew themselves. But the researchers also note that similar chromosomal changes are found in some types of cancer cell, yet another concern when it comes to moving into the clinic.

How specialised cells derived from embryonic stem cells will behave in the human body is a further uncertainty. As the Johns Hopkins report points out, whether grafts of these fruits of embryonic stem cells will settle down in the right place in the body, and keep doing their intended job rather than becoming other cell types or, even worse, cancer cells, is unknown.

But results from animal experiments demonstrate their tantalising potential. In the December issue of *Laboratory Investigation*, Joseph Itskovitz-Eldor and his team at the Technion-Israel Institute of Technology in Haifa show how human embryonic stem cells can be coaxed (in a test tube) into becoming the various cell types that make up blood vessels. Indeed, subsequent experiments have demonstrated that, when injected into special experimental mice, these differentiated cells are able to form fully functional blood vessels which join up with the animal's own circulatory system. This is a potential treatment for such things as ischemic heart disease.

But that path is littered with more than just technical obstacles. Embryonic stem cells raise profound questions about the morality of using existing embryos, or creating new ones, for the purposes of research on a medical treatment, no matter how great the benefit. As the scientific barriers to embryonic-stem-cell therapy fall, those ethical debates are set to deepen.

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Exploring Mars

A ghoul's breakfast

Dec 30th 2003
From The Economist print edition

The current crop of Mars missions has got off to a bad start

Get article background

TWO lost. Three to go. That looks a fair summary of the state of the flotilla of spacecraft that sailed boldly forth from Earth last summer to study Mars.

The first victim of the Great Galactic Ghoul that some students of Mars jokingly suspect protects the place from nosy Earthlings was *Nozomi*, Japan's effort to get to the planet. This was actually launched in 1998, but it followed a complicated fuel-saving orbit that sent it around the sun and back to Earth, to be slung towards Mars at the same time as the other missions took off. *Nozomi*, ironically the Japanese for “hope”, was dogged with despair from the start. The need for the fuel-saving orbit was the result of a technical problem early on in the mission (it was originally intended to arrive in 1999). After that, a solar flare damaged the craft's electronics, and its controllers decided on December 9th that they would not be able to put it into a Martian orbit.

The second apparent failure is that of *Beagle 2*. This was a small British craft intended to land on Mars on December 25th. It may well have made it, but if it did, it is keeping disturbingly quiet. Its controllers had not, as *The Economist* went to press, managed to establish contact. They have not quite given up yet, though. Their initial efforts involved listening with *Mars Odyssey*, an American craft already in orbit, and with various Earth-bound radio telescopes. But the main means of communication with *Beagle 2* was always intended to be its mother ship, the European Space Agency's *Mars Express*, from which it was released on December 19th. *Mars Express* went into an initial orbit around Mars at about the time that *Beagle 2* was landing, and it is now being manoeuvred into an operational orbit that will take it over both poles. That manoeuvre should be completed on January 4th. A polar orbit will enable *Mars Express* to scan the whole Martian surface as the planet turns beneath it, so if *Beagle 2* has landed in working order, but in the wrong place, it should show up.

Besides *Mars Express*, two missions launched by NASA, America's space agency, are still going strong. *Spirit* and *Opportunity*, wheeled rovers that are intended to explore parts of the Martian surface, are due to land on January 4th and January 25th respectively. Fingers crossed.

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Prion proteins

A new twist in the tale

Dec 30th 2003
From The Economist print edition

Prions, a class of molecule that includes the agents which cause "mad-cow disease" and its human equivalent, may be essential to learning

AMERICAN cattle farmers, once so smug about the freedom of their herds from bovine spongiform encephalopathy (BSE, or "mad-cow disease"), have recently discovered that biology is no respecter of international borders, and that stopping the spread of infections is a near-impossible task (see article). And yet the spread of BSE is, itself, a biological mystery. For the agent that causes it is a protein of a type known as a prion. And prions behave in ways that have no obvious biological use.

A prion's unique—and uniquely dangerous—characteristic is that it can impose its shape on others. Like many proteins, prions exist in more than one shape. Unlike other proteins, one of those shapes acts as a catalyst that causes neighbouring proteins of the same type to take up this same shape. That causes a chain reaction. And if the shape imposed is one which stops the protein carrying out its normal function, the result is a disease.

How and why this catalytic property evolved is unclear. But two groups of researchers have just published work that sheds a little light on the question. Eric Kandel, of Columbia University, is one of the pioneers of the study of memory at the molecular level. Susan Lindquist, of the Massachusetts Institute of Technology's Whitehead Institute, was the first person to find a non-mammalian prion (in yeast). In a pair of papers just published in *Cell*, they suggest that one sort of prion has a vital role in the laying down of memories.

One of the things that Dr Kandel's previous work has shown is that long-term memory is the result of new proteins being made at the synaptic connections between nerve cells. Electrical stimulation of these synapses releases a chemical called serotonin and this, in turn, somehow stimulates the manufacture of the memory-forming proteins. Changing a synapse affects the brain's circuitry, and it is the pattern of this circuitry that stores memories—though the details are obscure.

How these changes happen, though, is hard to understand. That is because the templates from which new proteins are manufactured, molecules called messenger RNAs (mRNAs), are made in the cell nucleus. Most cells are small, so mRNAs, and the proteins made in them, flood the whole cell. Nerve cells, though, are huge, and consist mainly of filaments that can be many centimetres long. The puzzle is thus how the cell knows exactly where to make memory-forming proteins. This, the new work suggests, is where prions come in.

For a long time, biologists have proposed that nerve cells have a way to "mark" stimulated connections, but the identity of such marks was elusive. To solve the mystery, Dr Kandel, and his colleague Kausik Si, turned to embryonic development. This is a process which also relies on things happening in exactly the right place.

Embryo researchers have found that some types of mRNA are not translated into protein unless a special molecular tag is added to them by an enzyme called cytoplasmic poly(A) element binding protein (CPEB). The presence or absence of CPEB therefore acts as a local switch for the production of these proteins. And CPEB is known to be present in synapses.

What Dr Kandel and Dr Si noticed, which previous researchers had not, was that part of CPEB looks similar to the part of known prions which is responsible for their curious properties. They therefore asked Dr Lindquist to confirm CPEB's prionic nature in her yeast cultures, which she did. She also showed that, in contrast to disease-causing prions, the prion-conformation of CPEB is the more biologically active variety—in other words, the one best able to tag and activate mRNA. Meanwhile, Dr Kandel and Dr Si

showed that when a synapse was exposed to serotonin, the level of CPEB in it increased.

Based on these studies, Dr Kandel, Dr Si and Dr Lindquist propose a simple and elegant model of the changes required for long-term memory: The more a synapse is stimulated, the more it produces CPEB. The more CPEB that is present, the more chance there is that some will spontaneously take on the prion form. Once that happens, the prion form takes over rapidly. In this model, mRNA molecules go everywhere in the nerve cell, but only those that reach the stimulated connections marked with activated CPEB are translated into proteins and bring about the changes necessary for long-term memory formation.

None of this directly explains what the prion which causes BSE is up to. But the fact that it, too, is a brain protein is interesting. Nature seldom makes a complete fool of itself. Maybe mad-cow disease and its human analogues are merely the unfortunate by-products of some crucial, but as yet unperceived, mechanism.

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About sponsorship

Attacking the White House

Oh George

Dec 30th 2003
From The Economist print edition

Magnum

A litany of books lay into the leader of the free world

“NO ONE likes us. We don't care.” Thus goes the chant of Millwall, an unloved-and-proud-of-it British football club. It could also be the anthem of the current White House. Not since Richard Nixon has an administration rejoiced so much in being loathed by its opponents. The Clintons used to fret about “a vast right-wing conspiracy”. George Bush's attitude, whether the foe is Gerhard Schröder or the one American in five who is happy to be called liberal, is a smirk and a curt “Don't mess with Texas.”

The fact that a president who promised to bring a new tone to Washington has actually polarised his country may prove a sensible electoral gamble on his part: the Bush lovers probably narrowly outnumber the Bush haters. But it is playing blue murder with political books.

Overt hatred was once rather unseemly in the literary world. Now it sells books by the shelf-load. Heading into Christmas, the first three books on the *New York Times* bestseller list were “Dude, Where's My Country?” by Michael Moore, the clown prince of Bushophobia, “Lies and the Lying Liars Who Tell Them”, a leftish rant by Al Franken, and then an angry conservative rejoinder, “Who's Looking Out For You?” by Bill O' Reilly of Fox News. Just below them sits another hefty seller—“Bushwhacked” by two Texan detractors, Molly Ivins and Lou Dubose.

The Bush bashers are quick to point out that the conservatives began this fight—by unleashing a succession of jeremiads against the Clintons, accusing the first couple of everything from murder to overseeing “The Death of Outrage”, to use the title of William Bennett's bestseller. Since Mr Clinton left the White House, the right has found new enemies from “the left-wing media” to faint-hearted Europeans. Producing a snarling “liberals-eat-your-children” book seems to be part of the job description for Fox News presenters.

Dude, Where's My Country?
By Michael Moore

Warner Books; 272 pages; $24.95
Penguin/Allen Lane; £17.99

Buy it at
Amazon.com
Amazon.co.uk

Lies and the Lying Liars Who Tell Them: A Fair and Balanced Look at the Right
By Al Franken

Yet Bush hatred arguably now exceeds even Clinton hatred in its scope. It has become a genre with endless sub-genres: for instance if you want to pursue Mr Franken's interest in fibs, you can go to “Big Lies” by Joe Conason or “The Lies of George W. Bush” by David Corn.

More important, Bush hatred is multinational. Clintophobia largely stopped at America's borders. But Bush loathing has picked up a strong anti-American tailwind, one that the loathers are not unafraid to exploit. The cover for the American edition of Paul Krugman's collection of anti-Bush essays, “The Great Unravelling”, is fairly restrained; the British cover is a grotesque lobotomised image of the president and vice-president which would horrify readers of Mr Krugman's column in the *New York Times*.

As a commercial phenomenon, Bush hatred is rather interesting. But sooner or later, you have to look at the content—and this is depressing, particularly if you read more than one book. Most of the anti-Bush books are fairly lazy affairs, endlessly repeating the same old stories. Just as you could feel Whitewater looming a few pages away in a Clintophobe book, you know when the Bush baiters are about to mention Arbusto—Mr Bush's first failed oil company—and what they will say.

There are bright spots. “Bushwhacked”, the pick of the bunch, has some original research and is written with the same biting Texan twang that Governor Ann Richards used to great effect against George Bush senior. Mr Franken is often genuinely funny: for instance, he writes to conservative advocates of abstinence education, asking them to send stories of their own heroism in this regard for an inspirational book for young people called “Savin' It!” (“Don't be afraid”, he urges the likes of Mr Bush and John Ashcroft, “to share a moment when you were tempted to have sex, but were able to overcome your urges through willpower and strength of character.”) By contrast, Mr Moore's satiric skills seem to have decreased in direct proportion to his fame: the wit of “Roger & Me”, which skewered General Motors, has given way to “Woo Hoo! I Got Me a Tax Cut!”

However, the real problem with the Bush-hating books is their lack of proportion. “Bushwhacked” nails Mr Bush's oil career as an open-and-shut case of crony capitalism, but then adopts the same tone of outrage with Mr Bush's generally well-meaning education bill. “The Bush Hater's Handbook”, assembled by a Canadian who changed nationality to vote against the president, compares Mr Bush's “compassionate conservatism” slogan with “*Arbeit macht frei*” from Auschwitz, though it concludes they are “not on a par”.

How sad then to include in all this “American Dynasty”. Sad, because the author, Kevin Phillips, has a good record as a political pundit, stretching back to “The Emerging Republican Majority” in 1969; sad, too, because he has amassed a lot of material on Mr Bush's forebears—a great grandfather who was a war-profiteering robber baron, a grandfather with links to both Nazi Germany and the early CIA, a father who exaggerated the extent to which he struck out for oil in Texas by himself.

Written as a narrative, this could have made a decent yarn. Instead, Mr Phillips uses the Bush family to illustrate a host of pet historical and cultural theories, including his personal take on Britain's 17th-century restoration in which Mr Bush is compared, oddly, to Charles II.

It is not just that the story ricochets backwards and forwards at a dizzying rate; the historical analogies are all over the place. Fair enough, today's Protestant fundamentalists are a little like Oliver Cromwell's Ironsides (“who knew more about the geography of the Holy Land than about the English terrain two counties away”). But it is very odd to jump from the Plantagenet kings to invading Iraq; or from the House of Karadjordjevic to America's “aristophilia in the 1980s and 1990s”.

The author admits that he had planned to write a more conventional book about

Penguin/Dutton; 400 pages; $24.95
Penguin/Allen Lane; £12

Buy it at
Amazon.com
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Bushwhacked: Life in George W. Bush's America
By Molly Ivins and Lou Dubose

Random House; 347 pages; $24.95
Allison & Busby; £7.99

Buy it at
Amazon.com
Amazon.co.uk

The Bush-Hater's Handbook: A Guide to the Most Appalling Presidency of the Past 100 Years
By Jack Huberman

Nation Books; 337 pages; $13.95

Buy it at
Amazon.com
Amazon.co.uk

American Dynasty: Aristocracy, Fortune, and the Politics of Deceit in the House of Bush
By Kevin Phillips

dynastic politics, but then his “unhappiness” with the president and his family took over. So why are so many people unhappy with Mr Bush? Could it have something to do with the Millwall attitude? Mr Clinton seemed to be stuck in an argument with his detractors. Mr Bush simply does not care. In fact, he actually seems to revel in the idea that some people don't like him—and that gets up people's noses.

Viking; 384 pages; $25.95

Buy it at
Amazon.com
Amazon.co.uk

Dude, Where's My Country?
By Michael Moore.
Warner Books; 272 pages; $24.95
Penguin/Allen Lane; £17.99

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About sponsorship

Nostalgia

When we were young

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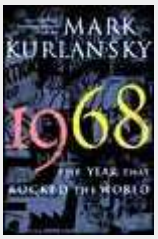
THE Tet offensive, the Prague spring, Bobby Kennedy's assassination, the killing of Martin Luther King, Black Power salutes at the Mexico City Olympics: for a generation of baby-boomers Mark Kurlansky's eminently readable book will bring a flood of memories of an exceptional year in the exceptional 1960s. Indeed, the French even have a special name, *les soixante-huitards*, for the nostalgic ex-revolutionaries of Paris in May 1968.

1968: The Year That Rocked the World
By Mark Kurlansky



Ballantine Books; 441 pages; $26.95. To be published in Britain by Jonathan Cape in May 2004

Buy it at
Amazon.com
Amazon.co.uk

But did 1968 really “rock the world” in any sense other than the Beatles and the Rolling Stones? The Vietnam war lasted another five years; the Soviet Union over two decades more; and though Charles de Gaulle soon quit, “Gaullism” even now remains the French right's electoral touchstone. Mr Kurlansky makes a brave attempt to justify his title—witness a long exposition on the abortive Biafran independence struggle, and some passing references to the Cultural Revolution in China—but the fact is it smacks more of smart marketing than historical precision.

Yet we should not carp. If the world did not actually rock, large parts of it certainly changed. America gave birth to a new feminist movement, which subsequently made sexual harassment and inequality not just unacceptable but also illegal. Racial discrimination, so casually prevalent in previous eras, became socially taboo, unless the discrimination were positive. Colonialism and imperialism becameabsolute no-nos, hence perhaps America's present need to declare itself the “liberator” of Iraq, not its occupier.

Doubtless all of the young actors of 1968 planned for just such a lasting impact, but their efforts were often laughably maladroit. Mr Kurlansky deftly describes the sheer haphazardness of much of 1968: not the horribly serious events in Vietnam but the naivety and disorganisation of so many of the war's critics. So, too, with the ill-defined assault on the “establishment”: student leaders, from Mark Rudd in America to Daniel Cohn-Bendit in Europe, often had no clue what to do as a demonstration unfolded. Yet their opponents were equally clueless: time after time, from Grayson Kirk, president of New York's Columbia University, to Gustavo Diaz Ordaz, president of Mexico, the authorities over-reacted and wrongly reacted to young people that they simply did not, and seemingly could not, understand.

The weakness of Mr Kurlansky's all-embracing narrative is that he does so little to explain this gulf between the generations. The strength is the way he captures the idealism of the 1968 generation of students (the workers were usually notable for their anti-student sentiment). He is particularly good in describing events in Europe, especially Czechoslovakia and the slow tragedy of Alexander Dubcek. So, too, in his analysis of the two Germanies— with West Germany so much more lenient to former Nazis than the Communist East—and in his description of the role of Jewish dissidents in the various movements of 1968, from Abbie Hoffman and Jerry Rubin in America to Mr Cohn-Bendit and Adam Michnik in Europe.

What, in the end, was the common thread linking them all? Forget politics and ideology. Often the demonstrators, from Columbia University to Nanterre, were shamefully ignorant of the world beyond their campus. The real connection was television. Technological advance meant that a mass audience could for the first time see history in the making, or at least within 24 hours. Once America's cameras focused on Vietnam, its war was lost. As soon as the world's cameras filmed the Prague spring, the Soviet Union's image was fatally tarnished. But, as Mr Kurlansky notes, the cameras were not always benign: to be filmed it helped either to be violent or to be the victims of violence.

That, of course, is a lesson well learned by today's anti-globalists. Perhaps one day they, too, will claim to have “rocked the world”. In the meantime, let the baby-boomers enjoy their distinctiveness. As Adam Michnik told Mr Kurlansky: “I can recognise a sixty-eighter in a second. It is not the politics. It is a way of thinking. I met Bill Clinton and I could tell he was one.”

By Mark Kurlansky.
Ballantine Books; 441 pages; $26.95. To be published in Britain by Jonathan Cape in May 2004

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PRINTABLE PAGE VIEW SPONSORED BY

About sponsorship

Medicine and the poor

The right to be well

Dec 30th 2003
From The Economist print edition

WHEN it comes to health, the poor are doubly cursed. Not only are they more prone to deadly infectious diseases than the rich, but they have far less access to the means of improvement. Twenty years ago, Paul Farmer, an American doctor and anthropologist, set out to do something about this. Amid the political turmoil and poverty of rural Haiti, he created a community-based health-care system called Zanmi Lasante, or Partners in Health. It not only delivers appropriate, affordable medical treatment to thousands of poor people, but goes beyond the clinic to address the social causes making them sick and keeping them from getting better.

Dr Farmer's latest book, “Pathologies of Power”, describes his experiences in Haiti, his efforts to transplant this model to other places, and the institutional barriers in his way. Through Partners in Health, this approach successfully checked multi-drug-resistant tuberculosis in Peru. It did so, not by following the rules of conventional TB care, but by challenging established ideas on why poor people develop this particularly vicious form of the disease and why they should be given more expensive drugs contrary to popular notions of cost-effectiveness. From its beginnings as a fringe treatment, this method has since become part of international best practice, and Dr Farmer's model of bringing medicine to the masses is now the basis of the World Health Organisation's ambitious new plan to put 3m poor people on anti-HIV medicines by 2005.

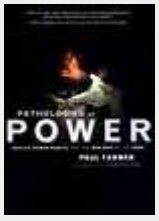
As Dr Farmer argues, improving the health of the poor is not just a medical challenge, but a question of human rights. Tackling the inequality, racism, sexism and other forms of “structural violence” which oppress the poor is as critical as doling out the drugs. Or, as his Haitian patients aptly put it, medicine without food is like washing one's hands and drying them in the dirt.

Unfortunately, Dr Farmer's powerful message is often weakened by his book's academic tone. It does, however, scream out in passages describing the human face of “structural violence”. It is these personal stories that make Dr Farmer's anger at such “stupid deaths” so compelling.

The good doctor's motives and methods are better described in “Mountains Beyond Mountains”. This biography by Tracy Kidder traces Dr Farmer from his unconventional upbringing and unusual education, shuttling between the shacks of central Haiti and the halls of Harvard Medical School, to his later work around the world. Though well written, Mr Kidder's book also makes for uncomfortable reading. The author is clearly close to his subject, having travelled with Dr Farmer from the green poverty of Haiti to the tubercular whiteness of Russia. Too close, perhaps. The biographer seems to be seeking his subject's approval, rather than the other way round. Mr Kidder writes, rather disturbingly, about his fear of disappointing Dr Farmer, his own pain at wounding him with a critical remark and his relief at the doctor's forgiveness.

When Mr Kidder's health falters, this dependence becomes all the more intense. But rather than compromise the book's impartiality, this intimacy serves to highlight Dr Farmer's admirable, yet ultimately exasperating, character. As Mr Kidder observes, “Farmer wasn't put on earth to make anyone feel comfortable, except those lucky enough to be his patients.” Or those unlucky enough to need him.

Pathologies of Power: Health, Human Rights, and the New War on the Poor
By Paul Farmer



University of California Press; 402 pages; $27.50 and £18.95

Buy it at
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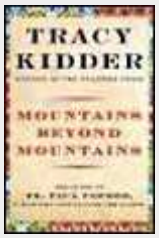
Mountains Beyond Mountains: The Quest of Dr Paul Farmer, a Man Who Would Cure the World
By Tracy Kidder



Random House; 317 pages; $25.95

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About sponsorship

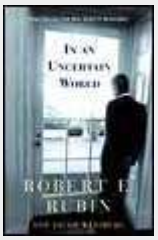
Political memoirs

Luck counts

Dec 30th 2003
From The Economist print edition

“GAMBLING”, said Edmund Burke, “is a principle inherent in human nature.” Few humans, however, have raised it to such an art as Robert Rubin, a former head of Goldman Sachs who served as Bill Clinton's treasury secretary from 1995 to 1999. His new book recounts his stellar career as a professional risk-taker. Mr Rubin does not call it gambling; he refers to “probabilistic decision making”. But the decision-making principles he outlines would be familiar to the professional gambler: mathematical risk analysis, never making a bet (however attractive the potential return) that could bankrupt you—and the recognition that in this imperfect world many decisions must still be made partly on intuition rather than information.

In an Uncertain World: Tough Choices from Wall Street to Washington
By Robert E. Rubin and Jacob Weisberg



Random House; 448 pages; $35
Texere; £24.99

Buy it at
Amazon.com
Amazon.co.uk

These principles define the book. His beginnings in arbitrage, his rise to the top of Goldman, his time in the Clinton administration—all are presented largely through the decisions he made. This makes for absorbing reading, especially in the passages on the epidemic of developing-world currency crises in the 1990s. Helped by a journalist, Jacob Weisberg, Mr Rubin writes clearly enough for the lay reader, yet also engagingly for the financially knowledgeable about what the issues and uncertainties were, and his descriptions of how he and his team worked through them to a final plan.

In the process, Mr Rubin offers a glimpse of the gulf between recommending policy from the safe remove of academia and actually making it in a messy reality full of unexpected complications and non-economic considerations. The book makes a persuasive case for the administration's much-criticised policy of pairing structural reform with financial aid, even while driving home just how perilously uncertain such decisions are.

Even the best gambler, however, must acknowledge that luck often counts as much as skill, and here Mr Rubin falters. Mr Clinton came to office at a singularly propitious moment, with an economic recovery under way, and the end of the cold war to help close the budget deficit. His economic policies deserve acclaim—but a wise gambler would note that most of the credit for the budget surplus went not to any policy, but to a booming stockmarket that temporarily boosted tax revenues. A scrupulously fair one would add that achievements such as the North American Free-Trade Agreement and deficit reduction (both partly inherited from his predecessor) might well have been politically impossible had Mr Clinton taken office at the beginning of the recession.

Mr Rubin also, like many a gambler with a system, tends to overstate its powers, especially on deficit reduction. His analyses of its effect on interest rates, and that of interest rates on the economy, are somewhat aggressive—one passage implies that if the budget surpluses had not evaporated, real interest rates on a ten-year United States bond would be 0.2%. The book would benefit from more explicit recognition that America's prosperity depended far more on the millions of citizens taking daily risks for the chance of a better future than on any government official.

But it is clear that Americans were lucky, with a treasury secretary committed to fiscal rectitude, international stability and free trade. In a time of exploding deficits and creeping protectionism, this book should serve to remind them just how lucky they were.

In an Uncertain World: Tough Choices from Wall Street to Washington.
By Robert E. Rubin and Jacob Weisberg.
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About sponsorship

Flemish manuscript painting

Portable art

Dec 30th 2003
From The Economist print edition

A jewel of an exhibition. But don't forget the magnifying glass

Christmas lunch

MOST art lovers know Pieter Breughel's peasant paintings. But even art historians would be hard pressed to recognise the work of Simon Bening—an artist who created scenes of peasant life 20 years before Breughel. Bening was the best and most famous illuminator of his time. But he was one of only three such artists still working in the confraternity of Ghent when he died in 1561. Within ten years, the art of illuminated manuscripts would be extinguished. Now for the first time, a spectacular exhibition, which began at the J. Paul Getty Museum in Los Angeles and continues at London's Royal Academy of Arts, reveals this lost art in pages that have not been opened for centuries.

“Illuminating the Renaissance” presents the summit of illuminated manuscripts in Flanders, broadly the late 1460s to 1560, under the patronage of the dukes of Burgundy, then rulers of Flanders. This late flowering of illumination—coming after Gutenberg's first printed Bible in 1455 or so—has often been seen as a last gasp of medievalism; Johan Huizinga, a great Dutch scholar, writing a seminal book “The Waning of the Middle Ages” just after the first world war, dismissed the period as effete. Of course, neither he, nor anyone else since the dukes of Burgundy amassed their vast princely libraries in the 15th century, had seen the greatest examples of manuscript illumination laid side by side. This exhibition is the first to assemble so many of the finest books of this period; it may indeed be the last.

The exhibition shows us the best of both worlds—oil painting and illumination—displaying Bening's work alongside Breughel's and Simon Marmion's alongside Jan van Eyck's. In response to panels by oil painters, illuminators made their images more luminous, mimicking the fluid effects of oil in the manuscript miniatures by painting in tempera on vellum, while the painters learned from the illuminators' inventiveness with naturalistic landscape and storytelling. There was an active dialogue, even rivalry, between the two types of artists, who filled Flemish merchant towns, often living side by side and intermarrying; Breughel's mother-in-law, for example, was a wealthy illuminator.

Such artistic ferment fed the appetite of the dukes of Burgundy for lavish works of art to glorify their reign. Illuminated manuscripts provided the ideal portable art form for a peripatetic court that moved regularly from its base in Dijon up through the Low Countries it had absorbed by marriage and conquest in the late 14th century.

No manuscript illustrates this better than the “Chroniques de Hainaut”, one of the greatest of all illuminated books, whose presentation scene immortalises the Burgundian court's love of pageantry. It shows Philip the Good, surrounded by his courtiers, receiving the gold clasped book that legitimised the reign of dukes of Burgundy over Flanders by somehow tracing their ancestry back to Alexander the Great. Every aspect of this book is precious, from the gold leaf that makes the pages glow to the image painted by Rogier van der Weyden.

By contrast, the bread and butter of illuminators was the “Book of Hours”: a pocket-sized breviary, sometimes no more than three inches high, which was designed as an intimate object of devotion to guide the reader in prayer. In these books, the images transform the painted page, with ever more inventive borders and miniatures crowding out the almost redundant words and showing the reader a vision of the Bible. To their princely owners, such books became more than texts and beautiful objects; they were mediums for spiritual transformation.

The brief and shining moment immortalised by manuscript illumination was not brought to an end by the printing press alone; the fact that illumination survived for a century after Gutenberg proves its strength. Indeed, after the advent of printing, illuminated manuscripts increased their cachet as hand-made luxury items for the elite. Rather, it was the Protestant Reformation that halved the market for illuminated manuscripts, and, combined with the end of the reign of the dukes of Burgundy and the ascent of Spanish rulers in Flanders, disrupted the pan-European network of trade routes and patronage on which illumination depended.

To glimpse these pages is to feel analmost child-like sense of wonder at the magical stories unfolding before our eyes. They remind us that both reading and art, at their best, are about much more than absorbing information; they are about entering another world.

“Illuminating the Renaissance: The Triumph of Flemish Manuscript Painting in Europe” is at the Royal Academy of Arts, London, until February 22nd

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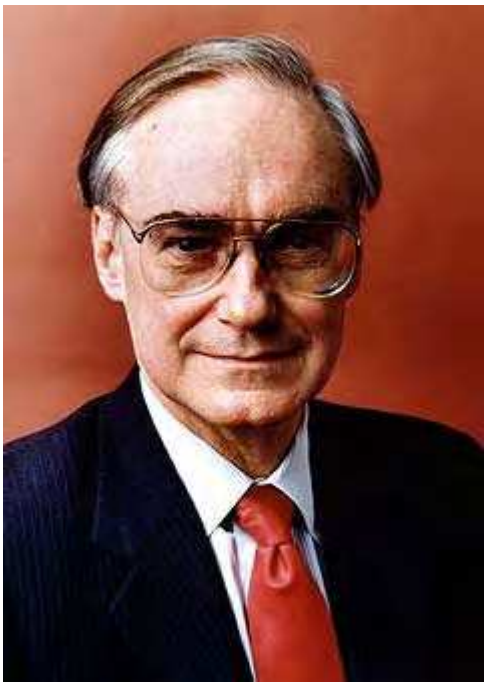
About sponsorship

Robert Bartley

Dec 30th 2003
From The Economist print edition

Robert Bartley, scourge of liberals, died on December 10th, aged 66

Getty Images



JOURNALISTS, and editorial writers in particular, like to imagine they have influence over the great. The president of the United States will suddenly punch the air at breakfast, enlightened at last; the British prime minister will grow pale and repent as he scans the morning columns. For most, this is an idle fancy. But Robert Bartley, who ran the editorial pages of the *Wall Street Journal* for three decades, had such power. Just before he died, George Bush awarded him the Presidential Medal of Freedom for his tireless championing of the conservative cause.

For Mr Bartley, right was right, and he never saw the slightest need to mince words. He proposed a bold foreign policy, with unapologetic use of American force. (In reply to those who muttered last autumn that Iraq risked becoming another Vietnam, he replied that Vietnam was lost only on the home front, and urged stout hearts and more firepower.) He believed in small government, deregulation, decentralisation, parental choice in education and a Supreme Court well staffed with non-revisionists; and what he believed, though spoken in a soft and rather gentlemanly voice, flew out of his word processor like shards of white-hot lead.

His favourite cause, and the one where he thought his own influence most decisive, was economics. After steering the *Journal*'s editorial page through the years of Ford bumbling and Carter malaise, inflation and stagflation, Mr Bartley came upon a group of young economists whose ideas impressed him to the end of his days. They advocated cutting both taxes and government spending, thereby returning money to the enterprising and allowing the economy to boom. This group—chiefly Arthur Laffer, Jude Wanniski and Robert Mundell, later known as “supply-siders”—would dine with Mr Bartley late into the night, and their ideas were packed into his columns.

Encouraged by this proselytising—though mostly driven by Mr Laffer's persuasive selling of his “curve” of tax rates and revenues, and David Stockman's axemanship at the Office of Management and Budget—the Reagan administration embraced supply-side economics from 1981 onwards. This was Mr Bartley's golden hour. He memorialised it in his book, “The Seven Fat Years: And How to Do It Again”. The cost of the supply-side experiment, trillion-dollar deficits, never bothered him. Though in many ways a devoted anti-Keynesian, he followed Keynes far enough to believe that deficits, even on that scale, were a fine way to get a country out of recession. “Worry later about debt” was his typically sunny advice.

Deficits were all right with him, because his great horror was a budget surplus. Nothing was worse than a huge pool of money sitting in the hands of the government. If Mr Bartley had had his way, government would have done no more than watched benignly as workers worked, citizens consumed and businessmen made profits. Though he viewed George W. Bush with avuncular fondness (and called his cliff-hanging election a conspiracy by Democratic lawyers), he was disappointed that he did not run deficits sooner, and was only half appeased by his tax rebates. Rebates, he often said, offered taxpayers no incentive for the future. Only actual tax cuts could set the people free.

Plumbing Whitewater

At heart Mr Bartley was a country man, and the rhythms of his life were slow. He was born in rural Minnesota, brought up in rural Iowa and got his first journalism job on the *Grinnell Herald-Register*. His

father was a veterinarian. Yet vets do not hesitate to cut open sheep or plunge their arms into the rectums of cows; and Mr Bartley came to specialise in the journalistic equivalent of both.

His biggest chance came with the election of Bill Clinton in 1992. Mr Bartley loathed him not only for his tax increases, not only for his gigantic folly of a health-care reform, but more than anything for the Arkansas grubbiness that came in with him. The editorial pages of the *Journal* began to seethe with rumours and insinuations about “cutting legal corners” and “carelessness about following the law”.

The paper's news reporters, not for the first time, found Mr Bartley's editorials rampaging far ahead of the facts they could substantiate, but nothing would hold him back. When an editorial headed “Who is Vincent Foster?” was followed by the suicide of the deputy White House counsel a month later, Mr Bartley merely urged more pressing investigations of whether Foster had known too much. The Whitewater scandal, in retrospect, was little more than an ill-advised piece of property speculation. But Mr Bartley and his team produced five volumes on it, a conspiracy theorist's delight.

Freedom was Mr Bartley's passion. But it was always freedom for some, rather than others. Democrats, trade unionists, anti-war protesters and the left-wing media in general had far too loud a voice, in his opinion. They formed, in fact, an “entrenched establishment” against the best interests and instincts of Americans. He thought of himself, his editorials and his columns as a counterweight to the prevailing culture. So they were, until America moved so definitively to the right that he became the culture himself.

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Overview

Dec 30th 2003
From The Economist print edition

In **America**, orders for durable goods fell by 3.1% in November, disappointing analysts who have been forecasting a recovery in capital spending. New claims for jobless benefit fell to 353,000, their lowest level in more than two years. That figure is believed to indicate an overall increase in hiring.

The **dollar** continued its slide and hit an all-time low against the euro of $1.25.

Producer prices in the year to November rose by 0.7% in **France** and by 1.3% in **Spain**. In **Belgium**, industrial production fell by 4.8% and retail sales rose by 3.4% in the year to October. **German** workers received a nominal pay rise of 2.1% in the year to October, and **Italian** workers' wages rose by 2.5% in the year to November.

Canada's industrial production fell by 0.3% in the year to October.

In **Switzerland**, industrial production rose by 0.4% in the year to the third quarter.

Japan's economy is recovering slowly. Industrial production rose for the third straight month in November, but the increase of 0.8% was less than expected. The increase represented a rise of 2.4% in the year to November. Over the same period, consumer prices fell by 0.5%. Also in November, unemployment held steady at 5.2%, down from 5.3% a year ago.

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Output, demand and jobs

Dec 30th 2003
From The Economist print edition

% change on year ago

	GDP latest		GDP qtr*	The Economist poll GDP forecasts 2003	2004	Industrial production latest		Retail sales (volume) latest		Unemployment % rate latest		year ago
Australia	+ 2.6	Q3	+ 4.8	+ 2.6	+ 3.8	+ 1.3	Q2	+ 5.3	Q3	5.6	Nov	6.1
Austria	+ 0.7	Q2	+ 1.1	+ 0.7	+ 1.7	+ 2.5	May	– 4.0	Aug	4.5	Oct	4.3
Belgium	+ 0.7	Q3	+ 2.0	+ 1.3	+ 1.7	– 4.8	Oct	+ 3.4	Oct	12.5	Nov†	11.6
Britain	+ 2.0	Q3	+ 3.1	+ 2.0	+ 2.7	+ 0.9	Oct	+ 3.7	Nov	5.0	Oct††	5.2
Canada	+ 1.0	Q3	+ 1.1	+ 1.9	+ 3.0	– 0.3	Oct	+ 3.1	Sep	7.5	Nov	7.5
Denmark	– 0.8	Q3	– 1.2	+ 0.7	+ 2.1	– 1.5	Oct	+ 5.5	Oct	6.4	Oct	5.3
France	– 0.2	Q3	+ 1.5	+ 0.2	+ 1.8	+ 0.5	Oct	– 2.2	May	9.7	Oct	9.1
Germany	– 0.2	Q3	+ 0.9	nil	+ 1.6	+ 0.8	Oct	– 2.1	Oct‡	10.5	Nov§	10.1
Italy	+ 0.5	Q3	+ 2.0	+ 0.4	+ 1.6	+ 0.4	Oct	– 0.4	Sep	8.5	Jul	9.0
Japan	+ 1.8	Q3	+ 1.4	+ 2.6	+ 2.0	+ 2.4	Nov	+ 0.3	Oct	5.2	Nov	5.3
Netherlands	– 1.1	Q3	+ 0.5	– 0.7	+ 1.1	– 0.1	Oct	– 3.2	Oct	5.7	Nov**	4.3
Spain	+ 2.4	Q3	+ 2.9	+ 2.3	+ 2.9	+ 0.6	Oct	+ 2.5	Sep	11.2	Oct	11.4
Sweden	+ 2.0	Q3	+ 1.9	+ 1.5	+ 2.4	+ 2.1	Oct	+ 3.9	Nov	3.9	Nov†	3.9
Switzerland	– 0.6	Q3	+ 1.0	– 0.4	+ 1.4	+ 0.4	Q3	+ 1.4	Oct	4.0	Nov†	3.1
United States	+ 3.5	Q3	+ 8.2	+ 2.9	+ 4.2	+ 1.6	Nov	+ 7.8	Oct	5.9	Nov	5.9
Euro area	+ 0.3	Q3	+ 1.5	+ 0.5	+ 1.8	+ 0.9	Oct	– 0.6	Sep	8.8	Oct	8.5
MORE COUNTRIES	Data for the countries below are not provided in printed editions of *The Economist*											
Finland	+ 1.6	Q3	+ 3.2	na	na	– 0.1	Oct	+ 3.6	Sep	8.2	Nov†	8.2
Greece	+ 5.0	Q3	+ 1.8	na	na	– 0.3	Aug	na		na		na
Iceland	+ 3.2	Q3	na	na	na	– 0.3	2002	na		2.8	Oct†	2.5
Ireland	+ 2.1	Q2	na	na	na	+11.5	Oct	+ 1.0	Oct	4.3	Nov	4.3
Luxembourg	+ 1.1	2002	na	na	na	+ 1.4	Sep	+ 6.8	Jul	4.0	Oct	3.2
New Zealand	+ 3.5	Q3	+ 6.3	na	na	+ 2.5	Q2	+ 6.1	Q3	4.4	Q3	5.4
Norway	+ 0.2	Q3	+ 3.3	na	na	– 3.6	Oct	+ 5.0	Oct	4.7	Q3	3.8
Portugal	– 0.9	Q3	– 2.1	na	na	– 1.0	Oct	– 0.7	Oct	6.3	Q3†	5.1

*% change on previous quarter at an annual rate. †Not seasonally adjusted. ‡New series. ††Aug-Oct; claimant count rate 3.0% in Nov . §EU harmonised rate 9.3% in Oct. **Sep-Nov.

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Prices and wages

Dec 30th 2003
From The Economist print edition

% change on year ago

	Consumer prices			The Economist poll consumer prices forecast		Producer prices			Wages/earnings		
	latest		year ago	2003	2004	latest		year ago	latest		year ago
Australia	+ 2.6	Q3	+ 3.2	+ 2.8	+ 2.3	– 0.1	Q3	– 0.2	+ 5.1	Q3	+ 3.6
Austria	+ 1.3	Nov	+ 1.7	+ 1.3	+ 1.1	+ 2.7	Nov	+ 0.5	+ 2.3	Oct	+ 2.3
Belgium	+ 1.9	Nov	+ 1.1	+ 1.6	+ 1.5	– 0.4	Nov	+ 1.4	+ 1.9	Q3	+ 2.1
Britain	+ 1.3	Nov	+ 1.6	+ 2.7	+ 2.5	+ 1.7	Nov	+ 0.9	+ 3.6	Oct	+ 3.7
Canada	+ 1.6	Oct	+ 3.2	+ 2.7	+ 1.7	– 3.8	Oct	+ 2.4	+ 3.1	Sep	+ 2.4
Denmark	+ 1.5	Nov	+ 2.7	+ 2.2	+ 1.6	+ 0.6	Nov	+ 0.8	+ 3.6	Q3	+ 3.9
France	+ 2.3	Nov	+ 2.2	+ 2.1	+ 1.6	+ 0.7	Nov	+ 0.9	+ 3.0	Q3	+ 3.5
Germany	+ 1.3	Nov	+ 1.2	+ 1.1	+ 1.0	+ 1.5	Nov	+ 1.1	+ 2.1	Oct	+ 2.6
Italy	+ 2.5	Nov	+ 2.8	+ 2.7	+ 2.2	+ 1.1	Nov	+ 1.6	+ 2.5	Nov	+ 2.2
Japan	– 0.5	Nov	– 0.4	– 0.2	– 0.2	– 0.5	Nov	– 1.2	+ 0.6	Nov	+ 0.6
Netherlands	+ 2.0	Nov	+ 2.8	+ 2.3	+ 1.7	+ 0.8	Oct	+ 2.3	+ 2.4	Nov	+ 3.3
Spain	+ 2.8	Nov	+ 3.9	+ 3.1	+ 2.6	+ 1.3	Nov	+ 1.6	+ 3.1	Q3	+ 3.8
Sweden	+ 1.4	Nov	+ 2.3	+ 2.2	+ 1.6	– 1.6	Nov	– 0.8	+ 2.5	Sep	+ 2.8
Switzerland	+ 0.5	Nov	+ 0.9	+ 0.6	+ 0.6	– 0.2	Nov	– 0.4	+ 1.8	2002	+ 2.5
United States	+ 1.8	Nov	+ 2.2	+ 2.3	+ 1.5	+ 3.4	Nov	+ 1.0	+ 2.1	Nov	+ 3.0
Euro area	+ 2.2	Nov	+ 2.3	+ 2.0	+ 1.6	+ 0.9	Oct	+ 1.1	+ 2.9	Q2	+ 3.0
MORE COUNTRIES	Data for the countries below are not provided in printed editions of *The Economist*										
Finland	+ 0.5	Nov	+ 1.7	na	na	– 0.2	Nov	+ 1.1	+ 3.9	Q3	+ 4.1
Greece	+ 3.3	Sep	+ 3.5	na	na	+ 2.2	Aug	+ 2.1	na		na
Iceland	+ 2.7	Dec	+ 2.0	na	na	+ 3.5	Dec	+ 5.9	+ 5.5	Nov	+ 5.7
Ireland	+ 2.2	Nov	+ 4.8	na	na	– 8.4	Nov	– 3.0	+ 4.7	Q3	+ 6.0
Luxembourg	+ 1.8	Nov	+ 2.2	na	na	+ 0.7	Oct	+ 0.3	+ 2.5	Sep	+ 1.6
New Zealand	+ 1.5	Q3	+ 2.6	na	na	+ 0.1	Q3	– 2.1	+ 2.3	Q3	+ 2.3
Norway	+ 1.4	Nov	+ 2.1	na	na	+ 7.4	Nov	+ 3.2	+ 4.3	Q3	+ 5.0
Portugal	+ 2.5	Nov	+ 4.0	na	na	– 0.3	Nov	+ 1.7	– 1.3	Oct	+ 0.6

* New series. RPI inflation rate in November: 2.5%.

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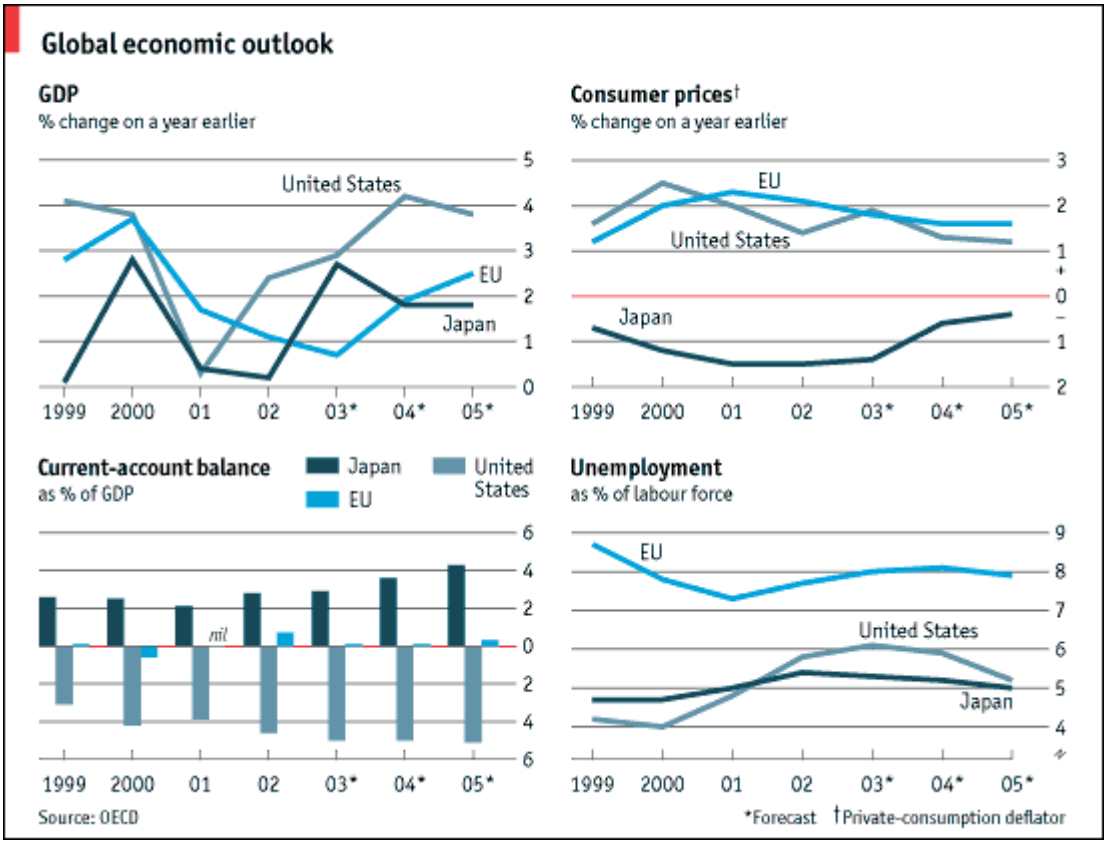
Global economic outlook

Dec 30th 2003
From The Economist print edition



The economy is now rebounding strongly after its recent downturn, reckons the OECD. America is expected to have one of the fastest growth rates among rich countries this year. Its GDP is forecast to grow by just over 4% in 2004, more than twice that expected for the European Union and Japan. The risk of deflation seems to have receded in America and Europe, where the OECD now expects that consumer prices will rise by between 1-2% this year and next. Japan, however, will still have to struggle with falling prices in the absence of a stronger response by its central bank. By 2005, unemployment is expected to be just under 8% in Europe, compared with around 5% in both Japan and America. The OECD thinks that America's current-account deficit, now around 5% of GDP, will continue to grow and remain one of the biggest risks for global economic stability.

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Money and interest rates

Dec 30th 2003
From The Economist print edition

	Money supply* % change on year ago			Interest rates % p.a. (Dec 29th 2003)					
				3-mth money market		2-year	10-year gov't bonds		corporate
	narrow	broad		latest	year ago	gov't bonds	latest	year ago	bonds
Australia	+ 8.7	+13.2	Oct	5.51	4.84	5.28	5.68	5.16	6.40
Britain	+ 8.0	+ 7.0	Nov	4.00	3.97	4.25	4.74	4.39	5.47
Canada	+ 5.2	+ 6.0	Nov	2.60	2.67	2.93	4.63	4.79	6.24
Denmark	+ 8.1	+ 9.9	Nov	2.30	2.15	2.73	4.36	4.40	5.44
Japan	+ 5.3	+ 1.6	Nov	0.02	0.02	0.11	1.29	0.90	1.42
Sweden	+ 3.2	+ 6.0	Oct	2.62	3.55	2.92	4.66	4.63	3.56
Switzerland	+24.4	+ 8.5	Nov	0.25	0.62	-0.21	2.59	2.17	2.52
United States	+ 6.6	+ 4.6	Nov	1.06	1.29	1.78	4.19	3.82	5.83
Euro area†	+10.7	+ 7.4	Nov	2.14	2.87	2.44	4.26	4.15	4.11

*Narrow: M1 except Britain and Sweden M0, broad: M2 or M3 except Britain M4. †Germany for bonds. Benchmarks: US 30-year 5.38%, Japan No. 256 1.35%. Central bank rates: US fed funds 1.00%, ECB refinancing 2.00%, BOJ overnight call 0.001%, BOE repo 3.75%. Sources: Commerzbank, Danske Bank, J.P. Morgan Chase, Royal Bank of Canada, Stockholmsbörsen, UBS, Global Insight, Westpac, Thomson Datastream. Rates cannot be construed as banks' offers.

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The Economist commodity price index

Dec 30th 2003
From The Economist print edition

1995=100

	Dec 16th	Dec 23rd*	% change on one month	% change on one year
Dollar index				
All items	88.9	88.1	+ 1.7	+16.2
Food	88.1	85.5	– 0.5	+ 8.0
Industrials				
All	89.9	91.5	+ 4.7	+28.4
Nfa†	88.2	89.7	– 0.2	+21.9
Metals	91.3	93.0	+ 9.1	+34.2
Sterling index				
All items	80.1	78.6	– 2.2	+ 5.0
Euro index				
All items	94.8	93.2	– 3.4	– 3.6
Yen index				
All items	101.8	100.6	– 0.4	+ 3.8
Gold				
$ per oz	407.75	409.75	+ 4.5	+18.6
West Texas Intermediate				
$ per barrel	32.91	32.02	+ 7.6	+ 0.3

* Provisional. † Non-food agriculturals.

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Stockmarkets

Dec 30th 2003
From The Economist print edition

Market indices

	Dec 29th	2003 high	2003 low	% change on one week	% change on record high	% change on Dec 31st 2002 in local currency	% change on Dec 31st 2002 in $ terms
Australia (All Ordinaries)	3,286.4	3,310.6	2,673.3	+ 0.8	– 4.5	+10.4	+45.6
Austria (ATX)	1,548.7	1,546.2	1,120.2	+ 1.1	–10.8	+34.7	+60.2
Belgium (Bel 20)	2,231.0	2,220.2	1,426.6	+ 1.1	–39.4	+10.2	+31.0
Britain (FTSE 100)	4,457.5	4,444.7	3,287.0	+ 0.8	–35.7	+13.1	+24.5
Canada (Toronto Composite)	8,260.5	8,138.4	6,228.6	+ 1.5	–27.5	+24.9	+50.4
Denmark (KBX)	213.7	222.6	145.0	+ 0.9	–29.2	+28.5	+52.6
France (SBF 250)	2,388.4	2,394.4	1,630.1	+ 0.6	–45.6	+16.3	+38.4
(CAC 40)	3,520.8	3,510.3	2,403.0	+ 0.7	–49.1	+14.9	+36.7
Germany (DAX)	3,952.7	3,903.3	2,203.0	+ 2.0	–51.0	+36.6	+62.5
Italy (BCI)	1,249.5	1,286.7	959.4	– 0.4	–42.7	+14.4	+36.1
Japan (Nikkei 225)	10,500.6	11,161.7	7,607.9	+ 1.2	–73.0	+22.4	+35.9
(Topix)	1,026.2	1,105.6	770.6	+ 1.1	–64.4	+21.7	+35.1
Netherlands (AEX)	334.5	343.0	218.4	+ 1.3	–52.3	+ 3.7	+23.3
Spain (Madrid SE)	809.9	804.4	576.8	+ 1.6	–29.3	+27.7	+52.0
Sweden (Affarsvarlden Gen)	188.7	186.3	127.8	+ 2.8	–52.9	+30.0	+55.8
Switzerland (Swiss Market)	5,445.2	5,440.7	3,675.4	+ 1.1	–35.3	+17.6	+30.1
United States (DJIA)	10,450.0	10,341.3	7,524.1	+ 1.1	–10.9	+25.3	+25.3
(S&P 500)	1,109.5	1,096.0	800.7	+ 1.5	–27.4	+26.1	+26.1
(NASDAQ Comp)	2,006.5	1,989.8	1,271.5	+ 2.6	–60.3	+50.2	+50.2
Europe (FTSE Eurotop 300)*	953.2	950.2	682.7	+ 1.0	–44.1	+11.2	+32.3
Euro area (FTSE Ebloc 100)*	827.4	822.1	565.7	+ 1.2	–46.6	+15.2	+37.0
World (MSCI)†	1,028.2	1,018.3	710.8	+ 1.6	–29.0	+29.8	+29.8
World bond market (Citigroup)‡	601.3	601.3	518.6	+ 0.4	nil	+14.5	+14.5

*In euro terms. †Morgan Stanley Capital International index includes individual markets listed above plus eight others, in dollar terms.
‡Citigroup World Government Bond Index, total return, in $ terms.

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Trade, exchange rates and budgets

Dec 30th 2003
From The Economist print edition

	Trade balance*, $bn latest 12 months		Current account $bn latest 12 mths		The Economist poll % of GDP, forecast 2003	2004	Exchange rate trade-weighted† 1990=100 Dec 29th	year ago	Currency units per $ Dec 29th	year ago	per £	per euro	per ¥100	Budget balance % of GDP 2003‡
Australia	− 14.3	Oct	− 27.2	Q3	− 5.7	− 4.9	86.9	73.0	1.35	1.78	2.39	1.68	1.26	0.8
Austria	− 0.8	Sep	+ 0.8	Oct	nil	− 0.1	102.8§	100.9	0.80	0.95	1.42	–	0.75	-1.3
Belgium	+ 20.7	Oct	+ 11.2	Jun	+ 4.3	+ 4.4	102.9§	100.1	0.80	0.95	1.42	–	0.75	0.2
Britain	− 74.4	Oct	− 36.1	Q3	− 1.9	− 1.7	100.3	104.5	0.56	0.62	–	0.70	0.53	-2.9
Canada	+ 42.0	Oct	+ 16.7	Q3	+ 1.8	+ 1.4	87.7	74.6	1.31	1.58	2.32	1.64	1.23	1.0
Denmark	+ 10.2	Oct	+ 5.4	Oct	+ 2.8	+ 2.7	107.0	104.0	5.96	7.08	10.6	7.44	5.58	0.8
France	+ 5.7	Oct	+ 21.3	Oct	+ 1.4	+ 1.4	106.4§	103.0	0.80	0.95	1.42	–	0.75	-4.0
Germany	+142.7	Oct	+ 58.2	Oct	+ 2.3	+ 2.3	103.9§	100.0	0.80	0.95	1.42	–	0.75	-4.1
Italy	+ 3.4	Oct	− 19.2	Oct	− 1.0	− 0.8	75.8§	73.5	0.80	0.95	1.42	–	0.75	-2.7
Japan	+100.6	Oct	+127.4	Oct	+ 2.9	+ 2.9	136.8	132.9	107	119	189	133	–	-7.4
Netherlands	+ 33.0	Oct	+ 17.7	Q3	+ 2.6	+ 2.8	102.4§	99.2	0.80	0.95	1.42	–	0.75	-2.4
Spain	− 50.5	Sep	− 24.1	Sep	− 2.4	− 2.3	77.1§	75.0	0.80	0.95	1.42	–	0.75	0.1
Sweden	+ 17.9	Nov	+ 14.8	Q3	+ 4.2	+ 4.1	82.5	78.4	7.27	8.72	12.9	9.07	6.80	0.2
Switzerland	+ 5.2	Nov	+ 35.0	Q2	+11.0	+10.9	111.8	116.9	1.25	1.38	2.21	1.56	1.17	na
United States	−549.5	Oct	−541.7	Q3	− 5.1	− 5.3	95.3	110.5	–	–	1.77	1.25	0.94	-4.9
Euro area	+ 86.7	Oct	+ 42.1	Oct	+ 0.4	+ 0.5	92.4	84.5	0.80	0.95	1.42	–	0.75	-2.7
MORE COUNTRIES	Data for the countries below are not provided in printed editions of *The Economist*													
Finland	+ 14.4	Oct	+ 10.9	Oct	na	na	81.7§	79.0	0.80	0.95	1.42	–	0.75	2.6
Greece	− 24.8	Oct	− 10.7	Oct	na	na	59.5§	58.1	0.80	0.95	1.42	–	0.75	-1.6
Iceland	− 0.2	Oct	− 0.4	Q2	na	na	93.2**	93.5	71.7	80.8	127	89.5	67.1	-1.0
Ireland	+ 38.6	Oct	− 2.1	Q2	na	na	94.7§	89.2	0.80	0.95	1.42	–	0.75	-1.0
Luxembourg	− 3.4	Sep	+ 1.5	Q2	na	na	102.9§	100.1	0.80	0.95	1.42	–	0.75	-0.3
New Zealand	− 1.8	Oct	− 3.3	Q3	na	na	101.7	93.1	1.54	1.91	2.73	1.93	1.44	2.6
Norway	+ 28.0	Nov	+ 27.1	Sep	na	na	96.0	108.1	6.75	6.93	12.0	8.43	6.31	9.8
Portugal	− 13.1	Sep	− 7.8	Aug	na	na	93.3**	91.1	0.80	0.95	1.42	–	0.75	-2.9

*Merchandise. Australia, Britain, France, Canada, Japan and United States imports fob, exports fob. All others cif/fob. †Bank of England except §IMF, October average. ‡OECD forecast. **IMF, August average.

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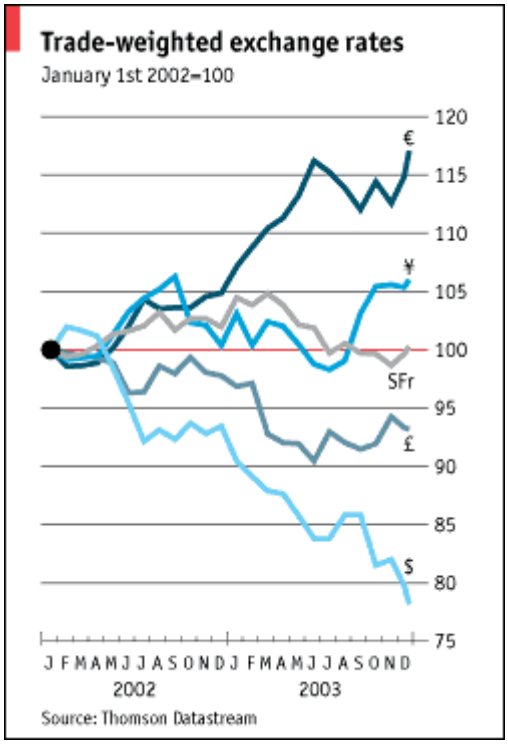
Trade-weighted exchange rates

Dec 30th 2003
From The Economist print edition



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Overview

Dec 30th 2003
From The Economist print edition

Singapore's industrial production rose by 7.7% and consumer-price inflation ran at 0.6% in the year to November. In **Hong Kong**, industrial production fell by 9.2% in the year to the third quarter and consumer prices fell by 2.3% in the year to November.

Thailand's GDP grew by 6.5% in the year to the third quarter.

Israel's industrial production fell by 4.9% in the year to October.

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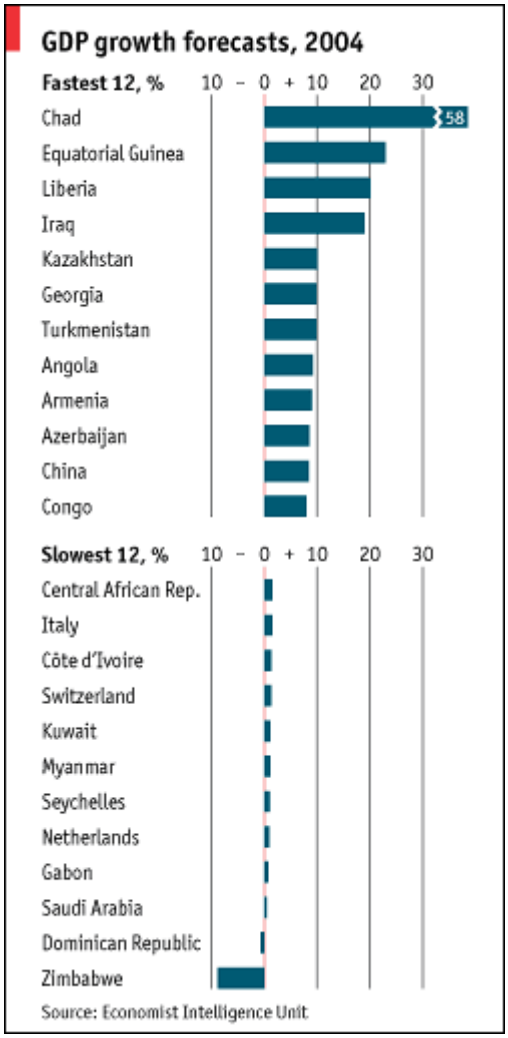
GDP growth forecasts, 2004

Dec 30th 2003
From The Economist print edition

Africa is likely to be the home of many of both the world's fastest-growing and slowest-growing economies in 2004, according to the Economist Intelligence Unit, a sister organisation of *The Economist*. Chad's economy is tipped to outpace all others, including last year's front-runner, Equatorial Guinea. The EIU expects Chad's economy to grow by an impressive 58% in 2004, compared with 23% for Equatorial Guinea. Both countries can thank rising oil output for their good fortune. Yet other petro-states are not as lucky. Saudi Arabia can expect growth of only 0.5%, and Kuwait of 1.1%, in 2004. Zimbabwe remains at the bottom; its economy is expected to shrink by nearly 9% this year.



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Economy

Dec 30th 2003
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	% change on year ago						Latest 12 months, $bn				Foreign reserves* $bn, latest	
	GDP		Industrial production		Consumer prices		Trade balance		Current account			
China	+ 9.1	Q3	+17.9	Nov	+ 3.0	Nov	+22.9	Nov	+35.4	2002	383.9	Sep
Hong Kong	+ 4.0	Q3	– 9.2	Q3	– 2.3	Nov	– 8.0	Nov	+16.7	Q3	114.1	Nov
India	+ 5.7	Q2	+ 5.4	Oct	+ 3.3	Oct	–13.1	Oct	+ 2.8	Q2	92.2	Nov
Indonesia	+ 3.9	Q3	+ 4.7	Jul	+ 5.3	Nov	+26.1	Oct	+ 6.7	Q1	33.5	Oct
Malaysia	+ 3.5	Q3	+11.3	Oct	+ 1.1	Nov	+19.1	Oct	+10.1	Q2	44.0	Nov
Philippines	+ 4.4	Q3	– 3.7	Sep	+ 3.3	Nov	– 1.4	Oct	+ 3.4	Sep	13.3	Nov
Singapore	+ 1.7	Q3	+ 7.7	Nov	+ 0.6	Nov	+15.7	Nov	+25.6	Q3	93.9	Nov
South Korea	+ 2.3	Q3	– 3.9	Nov	+ 3.4	Dec	+14.5	Nov	+ 9.8	Nov	143.2	Oct
Taiwan	+ 4.2	Q3	+ 9.0	Oct	– 0.4	Nov	+17.9	Nov	+28.8	Q3	202.8	Nov
Thailand	+ 6.5	Q3	+12.7	Oct	+ 1.8	Nov	+ 4.5	Nov	+ 8.1	Nov	39.3	Oct
Argentina	+ 7.6	Q2	+10.8	Sep	+ 3.6	Nov	+16.9	Oct	+ 8.9	Q3	13.5	Nov
Brazil	– 1.5	Q3	+ 1.1	Oct	+11.0	Nov	+23.9	Nov	+ 3.6	Nov	54.1	Oct
Chile	+ 3.0	Q3	+ 1.9	Oct	+ 1.0	Nov	+ 2.8	Nov	– 0.3	Q3	15.8	Nov
Colombia	+ 4.0	Q3	+ 2.3	Oct	+ 6.1	Nov	– 0.2	Sep	– 1.7	Q2	10.5	Nov
Mexico	+ 0.4	Q3	– 0.8	Oct	+ 4.0	Nov	– 5.6	Nov	–10.5	Q3	56.2	Oct
Peru	+ 4.1	Oct	+ 0.7	Oct	+ 1.9	Nov	+ 0.5	Oct	– 1.2	Q3	9.6	Nov
Venezuela	– 7.1	Q3	– 5.0	Sep	+25.6	Oct	+14.6	Q2	+ 8.9	Q3	14.5	Sep
Egypt	+ 3.1	2003†	+ 4.2	2002†	+ 4.7	Sep	– 6.0	Jul	+ 1.9	Q2	13.3	Aug
Israel	+ 2.8	Q3	– 4.9	Oct	– 2.0	Nov	– 6.5	Nov	– 0.2	Q3	24.4	Nov
South Africa	+ 1.6	Q3	– 2.6	Oct	+ 0.4	Nov	+ 2.6	Oct	– 1.3	Q3	6.5	Nov
Turkey	+ 4.8	Q3	+12.3	Oct	+19.3	Nov	–20.9	Oct	– 5.2	Sep	31.3	Nov
Czech Republic	+ 3.4	Q3	+ 5.2	Oct	+ 1.0	Nov	– 2.3	Oct	– 7.8	Q3	26.0	Nov
Hungary	+ 2.9	Q3	+ 9.9	Oct	+ 5.6	Nov	– 4.3	Oct	– 5.5	Oct	12.6	Nov
Poland	+ 3.8	Q2	+ 9.1	Nov	+ 1.6	Nov	–10.2	Oct	– 4.0	Oct	32.8	Nov
Russia	+ 7.2	Q2	+ 7.1	Nov	+12.5	Nov	+58.0	Oct	+37.9	Q3	64.4	Nov
MORE COUNTRIES	Data for the countries below are not provided in printed editions of *The Economist*											
Estonia	+ 4.6	Q3	+ 9.1	Oct	+ 1.0	Nov	– 1.9	Oct	– 1.5	Q3	1.2	Oct
Latvia	+ 7.3	Q3	+ 5.0	Oct	+ 3.6	Nov	– 1.9	Oct	– 0.9	Oct	1.3	Oct
Lithuania	+ 8.4	Q3	na		– 1.4	Oct	– 2.4	Oct	– 0.9	Q2	3.1	Oct
Slovakia	+ 4.2	Q3	+ 4.9	Oct	+ 9.8	Nov	– 0.8	Oct	– 1.0	Aug	10.0	Sep
Slovenia	+ 2.3	Q3	+ 1.3	Oct	+ 5.1	Nov	– 0.6	Sep	+ 0.1	Oct	7.9	Sep
Pakistan	+ 5.1	2003†	+ 7.5	Jul	+ 4.2	Nov	– 1.2	Nov	+ 3.6	Q3†	10.0	Oct
Saudi Arabia	+ 1.0	2002	na		– 1.2	Jul	+41.8	2002	+11.9	2002	22.5	Oct

*Excluding gold, except Singapore; IMF definition. †Year ending June.

Sources: National statistics offices, central banks and stock exchanges; Thomson Datastream; Economist Intelligence Unit; Reuters; J.P. Morgan Chase; Hong Kong Monetary Authority; Centre for Monitoring Indian Economy; FIEL; EFG-Hermes; Bank Leumi Le-Israel; Standard Bank Group; Akbank; Deutsche Bank

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Financial markets

Dec 30th 2003
From The Economist print edition

	Currency units			Interest rates	Stockmarkets	% change on		
	per $		per £	short-term	Dec 29th		Dec 31st 2002	
	Dec 29th	year ago	Dec 29th	% p.a.		one week	in local currency	in $ terms
China	8.28	8.28	14.7	na	1,568.4	+0.2	+ 10.5	+ 10.5
Hong Kong	7.76	7.80	13.7	0.18	12,464.3	−0.2	+ 33.7	+ 34.3
India	45.6	48.1	80.8	4.24	5,797.3	+3.9	+ 71.7	+ 80.4
Indonesia	8,465	8,890	14,991	8.68	693.0	+2.8	+ 63.1	+ 72.4
Malaysia	3.80	3.80	6.73	3.07	787.8	+1.6	+ 21.9	+ 21.9
Philippines	55.6	53.7	98.4	8.13	1,450.7	+2.1	+ 42.4	+ 36.8
Singapore	1.70	1.75	3.01	0.75	1,741.0	+1.1	+ 29.8	+ 32.4
South Korea	1,198	1,202	2,122	4.35	792.4	−1.5	+ 26.3	+ 25.0
Taiwan	34.0	34.8	60.2	1.15	5,804.9	−0.5	+ 30.4	+ 33.3
Thailand	39.6	43.0	70.2	1.41	746.8	+4.0	+109.5	+127.9
Argentina	2.95	3.51	5.23	4.94	1,078.0	+4.8	+105.3	+134.0
Brazil	2.87	3.53	5.09	16.35	22,045.0	+1.9	+ 95.6	+140.9
Chile	597	696	1,057	2.52	7,317.1	+1.3	+ 45.8	+ 75.9
Colombia	2,776	2,822	4,917	7.88	2,330.6	+0.3	+ 44.9	+ 49.6
Mexico	11.2	10.3	19.9	6.22	8,729.5	+1.9	+ 42.5	+ 32.7
Peru	3.47	3.50	6.14	2.50	2,452.1	+6.3	+ 76.2	+ 78.5
Venezuela	1,598	1,255	2,830	16.24	22,102.0	+2.1	+175.8	+139.3
Egypt	6.18	4.62	10.94	6.89	11,478.8	+0.7	+113.7	+ 60.2
Israel	4.37	4.67	7.74	2.07	529.3	+2.3	+ 59.2	+ 73.0
South Africa	6.72	9.00	11.9	7.95	10,325.7	+0.1	+ 11.3	+ 42.2
Turkey	1,411,000	1,621,950	2,499,022	24.00	17,973.9	−2.2	+ 73.3	+103.9
Czech Republic	26.1	30.4	46.2	2.07	656.9	+1.4	+ 42.6	+ 64.5
Hungary	209	229	369	12.34	9,470.3	+1.5	+ 21.4	+ 30.9
Poland	3.76	3.89	6.66	5.60	20,855.1	+1.1	+ 45.2	+ 48.1
Russia	29.4	31.9	52.1	16.00	569.8‡	−0.8	+ 46.1	+ 58.7
EMF (MSCI)*	1.00	1.00	1.77	na	436.3	+1.3	+ 49.4	+ 49.4
EMBI+†	1.00	1.00	1.77	na	294.4	−0.1	+ 28.6	+ 28.6

*Emerging Mkts Free. †J.P. Morgan Chase's Emerging Mkts Bond Index Plus. ‡ In $ terms.

Sources: National statistics offices, central banks and stock exchanges; Thomson Datastream; Economist Intelligence Unit; Reuters; J.P. Morgan Chase; Hong Kong Monetary Authority; Centre for Monitoring Indian Economy; FIEL; EFG-Hermes; Bank Leumi Le-Israel; Standard Bank Group; Akbank; Deutsche Bank

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